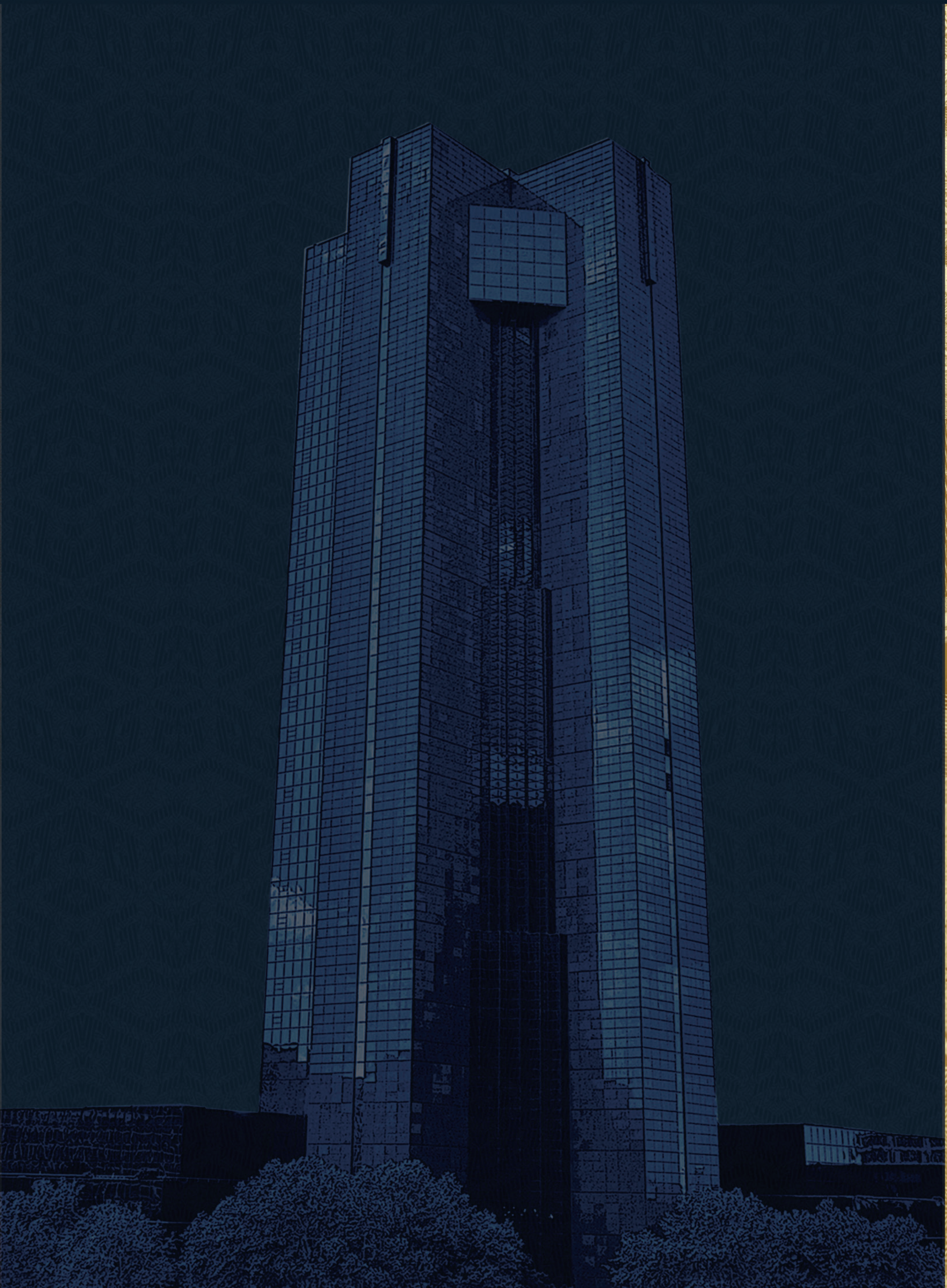
Quarterly Bulletin

June 2016



South African Reserve Bank

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Introduction

Having decelerated notably in the final quarter of 2015, global economic growth recovered somewhat in the first quarter of 2016, reflecting marginally higher rates of expansion in both advanced and emerging-market economies. In the former group of economies the improvement stemmed mainly from stronger performances in Japan and the euro area, while among the emerging-market economies growth picked up in India and Mexico and turned positive in Russia. For 2016 as a whole the International Monetary Fund (IMF), in its April 2016 *World Economic Outlook,* forecast global growth of 3,2 per cent.

World trade volumes contracted in the first quarter of 2016, whereas international commodity prices bottomed out and in some instances started recovering somewhat, albeit from low levels. This provided some relief to commodity-exporting countries, alongside the widespread depreciation of currencies which helped to buffer the impact of subdued international demand for commodities. Nevertheless, commodity-exporting economies continue to face headwinds, which impacted on economic growth and external and fiscal balances.

Apart from the challenges brought about by subdued commodity prices, a number of countries in Southern Africa had to face severe drought conditions in late 2015 and early 2016 which detracted further from growth and exports, setting in motion various negative multipliers in the economy and causing increases in domestic food prices. This was exacerbated by currency depreciation, culminating in an acceleration in food price and general inflation. The weakening exchange rates and rising inflation was not confined to Southern Africa, but extended to many other emerging-market economies. By contrast, headline consumer price inflation moderated in a number of advanced economies in the opening months of 2016, mostly reflecting the decline in global oil and other commodity prices and the continued presence of slack in those economies.

In South Africa real growth turned negative in the first quarter of 2016, with real gross domestic product (GDP) contracting at an annualised rate of 1,2 per cent. This disappointing outcome also dragged the growth rate over four quarters down to a negative value – the first year-on-year contraction since 2009, when economic conditions were dominated by the global financial crisis. Real production in the primary sector declined sharply in the first quarter, with the widespread drought having a debilitating impact on the agricultural sector and mining output falling on account of weak global demand and subdued commodity prices. Production of iron ore and platinum, in particular, declined during the quarter under review.

The real value added by the secondary sector inched higher in the first quarter of 2016 as the volume of manufacturing production picked up marginally and the real output of the construction sector rose somewhat, offsetting a decline in real activity in the sector supplying electricity, gas and water. With electricity supply in the country having stabilised following a strong maintenance drive by the electricity utility, Eskom, the decline in output was largely demand-driven and reflected the weak conditions in the economy, particularly in the electricity-intensive mining sector.

Growth in the real value added by the tertiary sector decelerated further in the first quarter of 2016 to its slowest pace since the fourth quarter of 2009. Activity contracted in the transport subsector, while the real value added by the general government and trade subsectors registered a slower pace of increase – the latter subsector largely due to a reduction in activity in the cyclically sensitive motor trade sector. The real value added by the finance sector accelerated marginally in the first quarter of 2016 as the securities markets recorded record-high turnover. While the real output of the communication subsector continued along its upward path, both freight and passenger transport activity contracted in the quarter under review.

Having increased in the preceding two quarters, real gross domestic expenditure contracted in the first quarter of 2016. Real final consumption expenditure by households and real gross fixed capital formation both declined, while growth in real final consumption expenditure by general government slowed over the period. The contraction in household consumption expenditure was concentrated in real spending on durable goods, with purchases of vehicles, recreational goods and personal computers suffering the largest setbacks in the first quarter. This was partly related to slower growth in the real disposable income of the household sector, higher debt-service cost and low consumer confidence.

Consistent with the subdued economic conditions, real gross fixed capital formation declined further in the first quarter of 2016. While capital spending by general government contracted significantly, the public corporations sector stepped up its capital expenditure, particularly in the area of electricity provision. Real fixed capital formation by the private sector also declined in the first quarter with notable decreases recorded in private transport services and mining. Capital spending in the drought-stricken agricultural sector increased over the period, albeit from a low base. Real inventory investment turned positive in the first quarter of 2016, probably partly as a result of the generally low levels of stocks, but also arising from an increase in orders received and pre-emptive stocking in the anticipation that prices would rise in the near future.

The annual average growth rate in formal non-agricultural employment slowed continuously from 2011 and came to a negative 0,5 per cent in 2015. Amid the slow growth in domestic and global output, total formal non-agricultural employment nevertheless increased somewhat in the fourth quarter of 2015. The increase emanated from public-sector employment at local government level for municipal projects under the Expanded Public Works Programme, and employment to assist with municipal elections. Overall employment in the private sector was unchanged but sectoral outcomes were mixed, with the services-related sectors creating jobs but these being cancelled out by job losses in the goods-producing sectors.

The number of unemployed persons looking for work rose further in the first quarter of 2016, resulting in an increase in the official unemployment rate to 26,7 per cent, from 26,4 per cent a year earlier. Youth unemployment remained particularly high.

In the first quarter of 2016 average wage settlements remained above consumer price inflation, as had also been the case in 2015. Remuneration growth per worker in 2015 was higher in the public sector than in the private sector. While headline consumer price inflation benefited from the lower oil price and averaged only 4,6 per cent in 2015, the depreciation in the exchange value of the rand and unfavourable food price developments resulted in a renewed acceleration in inflation towards the end of 2015. By January 2016 headline consumer price inflation breached the upper level of the inflation target for the first time after a spell of 16 consecutive months – from September 2014 – during which it had stayed inside the target range. Most recent consumer price inflation outcomes have been slightly above the target range. The policy interest rate increases implemented in January and March 2016 were aimed at moderating inflation and in time returning it to within the target range.

In volume terms both exports and imports contracted somewhat in the first quarter of 2016, but rose in nominal value terms. A recovery in the international prices of a number of South African export commodities and a more depreciated exchange rate of the rand contributed to an increase in the value of merchandise exports in the first quarter of 2016. The value of merchandise imports edged higher over the same period, with an increase in the value of imported capital and intermediate goods largely offset by lower imports of consumer goods. With a slightly firmer increase in exports than in imports, the country's trade deficit narrowed somewhat over the period.

However, in the first quarter of 2016 net income payments to the rest of the world increased notably compared with the preceding quarter, as dividend receipts from non-South African firms declined while dividend payments by South African entities to foreign shareholders rose. This pushed the shortfall on the service, income and current transfer account to a higher level, resulting in a widening of the deficit on the current account to 5,0 per cent of GDP. The financing of the shortfall through the financial account of the balance of payments mainly took the form of portfolio and other investment.

South Africa's net international investment position (or foreign assets minus foreign liabilities) registered a record-high positive value of 17,8 per cent of annualised GDP at the end of December 2015. This was largely driven by revaluation effects, with a much stronger increase in 2015 in the value of South Africa's foreign assets compared with the increase in the value of the country's foreign liabilities.

The banking sector's balance sheet firmed in 2015 and early 2016, with growth in both money supply and credit extension exceeding that in nominal GDP. Credit extension to the corporate sector continued to rise at double-digit rates, buoyed by real-estate, storage and communication, and renewable energy funding. Credit extension to households was more subdued. The monetary policy tightening cycle which started in early 2014 had added some 200 basis points to benchmark short-term interest rates up to the halfway mark of 2016.

After the steep increase in December 2015, South African bond yields started to moderate as the exchange value of the rand recovered and inflation outcomes turned out to be lower than expected. On occasion in the first five months of 2016, concerns regarding political developments and a possible credit rating downgrade drove bonds yields higher and the exchange value of the rand lower, but when all three the major credit rating agencies reaffirmed their investment-grade sovereign ratings for South Africa in May and early June, bond yields retreated to lower levels.

Bond and share market activity was brisk in the first five months of 2016, with record-high turnover. Share prices on the JSE Limited recovered over this period and have fluctuated close to previous record levels in the most recent three months.

Actual national government revenue and expenditure for the full 2015/16 fiscal year were close to the budgeted amounts – slightly higher than the original February 2015 budgeted projections, but somewhat lower than the revised February 2016 projections. While corporate income tax collections were subdued, revenue collections in all the other tax categories were firm. The cash-book deficit for the 2015/16 fiscal year came to 4,3 per cent of GDP, slightly lower than in the previous fiscal year. For the non-financial public sector as a whole, inclusive of all levels of government as well as non-financial public enterprises, borrowing was channelled to investment: the sector's gross fixed capital formation in 2015/16 continued to exceed its borrowing requirement by a significant margin.

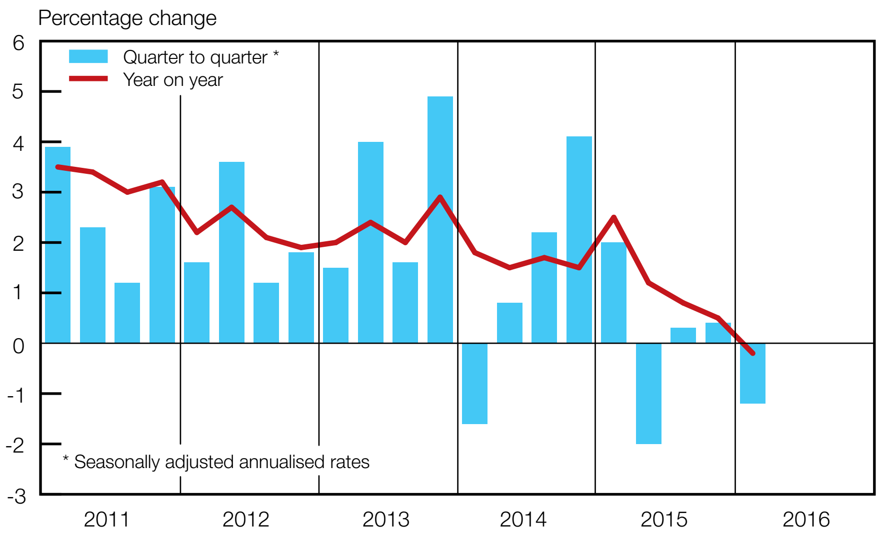
Domestic economic developments

Domestic output[1]

1 The quarter-to-quarter growth rates referred to in this section are based on seasonally adjusted data.

Real economic activity in South Africa contracted in the first quarter of 2016. Following dismal growth of 0,4 per cent in the fourth quarter of 2015, *real gross domestic product* (GDP) shrank at an annualised rate of 1,2 per cent in the first quarter of 2016. This disappointing performance reflected a further decline in the real output of the primary sector alongside slower growth in the real value added by the tertiary sector. By contrast, activity in the secondary sector increased in the first quarter of 2016, following a contraction in the final quarter of 2015. Measured over a year, the level of real GDP in the first quarter was 0,2 per cent lower than in the corresponding period in 2015 – the first year-on-year contraction since 2009 when the impact of the global financial crisis was at its worst.

Real gross domestic product



Excluding the contribution of the usually more volatile primary sector, growth in real GDP would have been 0,7 per cent in the first quarter of 2016.

Real gross domestic product

Percentage change at seasonally adjusted annualised rates

Sector	2015					2016
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Primary sector	6,3	-10,9	-10,8	-0,5	0,9	-15,5
Agriculture	-11,3	-20,4	-11,8	-6,7	-5,9	-6,5
Mining	12,7	-7,8	-10,5	1,4	3,2	-18,1
Secondary sector	-0,4	-4,9	2,5	-1,3	0,0	0,2
Manufacturing	-2,1	-6,3	4,7	-2,5	-0,3	0,6
Tertiary sector	1,7	0,8	1,5	1,4	1,6	0,8
Non-primary sector	*1,2*	*-0,5*	*1,7*	*0,8*	*1,3*	*0,7*
Total	2,0	-2,0	0,3	0,4	1,3	-1,2

Unfavourable climate conditions affecting the agricultural sector and the challenging trading environment encountered by the mining sector caused activity in the *primary sector* to contract further at a rate of 15,5 per cent in the first quarter of 2016 – its fourth consecutive quarterly decline. The pace of decline in the real output of the agricultural sector slowed slightly, while the real value added by the mining sector contracted sharply over the period.

The adverse effect of the widespread drought experienced in many parts of the country in 2015 continued to be felt in the opening months of 2016. The pace of decline in the real value added by the *agricultural sector,* however, slowed marginally to 6,5 per cent in the first quarter of 2016.

Domestic maize producers suffered large financial losses as a result of the devastating drought in 2015. With the country having produced 9,9 million tons of maize in the 2014/15 production season, the Crop Estimates Committee is projecting a maize crop of about 7,2 million tons for the 2015/16 season. To supplement the shortfall between production and consumption, South Africa will probably have to import between 4 and 5 million tons of white and yellow maize in the remainder of the year. Producers in the Free State and North West provinces have reduced the maize areas planted by 43 per cent and 32 per cent respectively compared with the preceding year, reducing the expected crop in these areas by around 40 per cent.

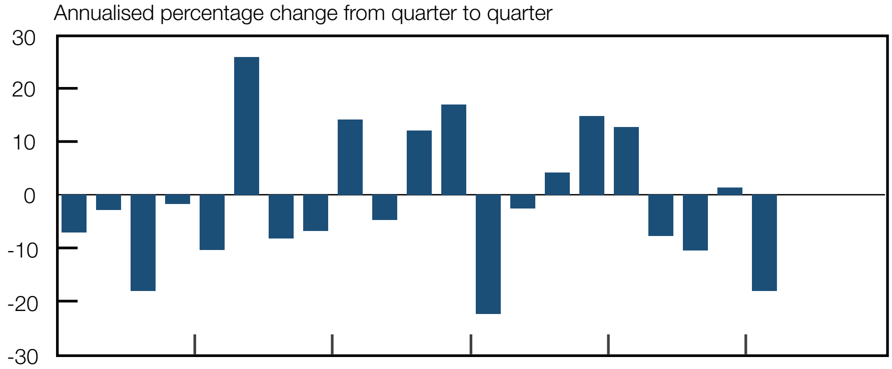
Commercial maize crop estimates

	Crop (Million tons)	Area planted (Million hectares)
2014/15: Final	9,9	2,7
2015/16: Fifth production forecast	7,2	2,0

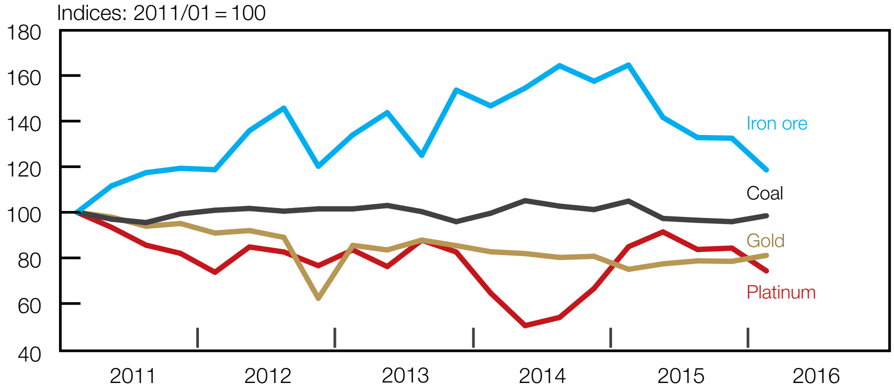
Source: Crop Estimates Committee of the Department of Agriculture, Forestry and Fisheries

Mining production continued to be fairly erratic on a quarter-to-quarter basis. Following an annualised increase of 1,4 per cent in the final quarter of 2015, real output in the *mining sector* contracted anew at an annualised rate of 18,1 per cent in the first quarter of 2016, subtracting 1,5 percentage points from growth in aggregate GDP. Iron ore production continued on its downward trend, while platinum production also shrank notably in the first quarter of 2016, partly due to safety stoppages at a platinum refinery following a fire.

Real value added by the mining sector



Volume of mining production



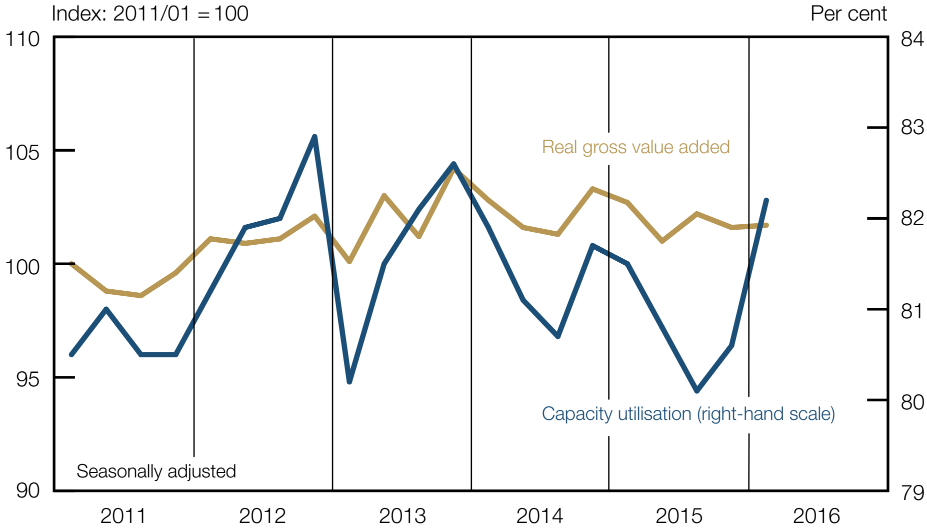
Seasonally adjusted

Despite a steady improvement in the price of platinum since January 2016, increased cost pressures and safety stoppages continued to hamper output. Conversely, the production of coal and gold advanced over the period, partly reflecting improved cost reduction measures through energy-saving initiatives and enhanced mechanisation. Notwithstanding the improved performance in some subsectors, weak international commodity prices and lacklustre international economic prospects continued to challenge mining production in general.

The real value added by the *secondary sector* switched from a decline of 1,3 per cent in the fourth quarter of 2015 to an annualised increase of 0,2 per cent in the first quarter of 2016. Positive growth in the real output of the manufacturing and construction subsectors was partially offset by a contraction in electricity production over the period.

Subsequent to a contraction in the fourth quarter of 2015, the real output of the *manufacturing sector* picked up moderately in the first quarter of 2016. Underpinned by increased production of durable and non-durable products, the real value added by the manufacturing sector increased at an annualised rate of 0,6 per cent over the period. Production volumes of durable products were sustained in the subsectors supplying basic iron and steel; non-ferrous metal products and machinery; and motor vehicles, parts and accessories and other transport equipment. In addition, the production of non-durable manufactured goods increased in the subsector for wood and wood products, paper publishing and printing. The higher production levels in a number of subsectors contributed to an increase in the utilisation of production capacity in the manufacturing sector from 80,6 per cent in November 2015 to 82,2 per cent in February 2016. Production activity in the manufacturing sector, however, continued to be restrained by, among other factors, the decline in agricultural production, higher electricity prices feeding into production costs, dwindling business confidence, and suppressed domestic and global demand.

Manufacturing: real gross value added and capacity utilisation



Real activity in the sector supplying *electricity, gas and water* contracted in the first quarter of 2016. Having increased at an annualised rate of 1,0 per cent in the fourth quarter of 2015, the real output of this sector declined at an annualised rate of 2,8 per cent in the first quarter of 2016. The demand for electricity in the first quarter of 2016 was dampened by sluggish domestic demand in especially the electricity-intensive mining and manufacturing sectors. However, over the same period, electricity exports gained further pace, while imports tapered off. Despite the contraction in output, the scheduled maintenance undertaken by Eskom at various power plants was successful in averting the need to introduce load-shedding.

Growth in the real value added by the *construction sector* slowed marginally from an annualised rate of 1,4 per cent in the final quarter of 2015 to 0,5 per cent in the first quarter of 2016. Building activity in both the residential and non-residential building sectors contracted, while activity in the civil construction segment accelerated over the period.

The pace of increase in the real value added by the *tertiary sector* slowed further, from 1,4 per cent in the fourth quarter of 2015 to 0,8 per cent in the first quarter of 2016 – the slowest growth since the fourth quarter of 2009. Activity in the transport subsector contracted alongside a slower pace of increase in the real value added by the trade and general government subsectors. By contrast, growth in the real output of the finance sector accelerated marginally over the period.

Growth in the real output of the *trade sector* slowed in the first quarter of 2016. Having increased at an annualised rate of 2,6 per cent in the final quarter of 2015, the real value added by the commerce sector rose at a slower pace of 1,3 per cent in the first quarter of 2016. Activity in the motor trade sector contracted, while growth in the real value added by the retail sector moderated. The real output of the wholesale trade subsector increased at a somewhat faster pace over the period.

Activity in the cyclically sensitive motor trade subsector contracted in the first quarter of 2016, partly due to higher prices amid a somewhat higher interest rate environment and lacklustre economy. Sales of commercial vehicles were adversely affected by the weak business confidence, and that of passenger cars by low consumer confidence levels. Retail trade activity slowed in the first quarter of 2016, with retailers of especially specialised food and beverages, and of pharmaceutical and medical goods, cosmetics and toiletries facing headwinds over the period. By contrast, the catering and accommodation subsector benefited from an uptick in foreign travellers visiting South Africa.

On a quarter-to-quarter basis, the real value added by the *transport, storage and communication sector* contracted at an annualised rate of 2,7 per cent in the first quarter of 2016, following a decline of 0,3 per cent in the fourth quarter on 2015. This performance reflected weaker activity in both freight and passenger transportation. Growth in the real output of the communication subsector, however, accelerated over the period.

Growth in the real value added by the *finance, insurance, real-estate and business services sector* accelerated marginally from an annualised rate of 1,7 per cent in the fourth quarter of 2015 to 1,9 per cent in the first quarter of 2016. This acceleration mainly reflected increased activity in the real-estate sector and record-high turnover in the securities market over the period.

The pace of increase in the real value added by *general government* slowed marginally, from 1,2 per cent in the fourth quarter of 2015 to 1,1 per cent in the first quarter of 2016, as spending on real compensation of employees moderated over the period.

Real gross domestic expenditure

Consistent with the contraction in domestic production in the first quarter of 2016, *real gross domestic expenditure* declined over the period. Subsequent to an increase of 1,9 per cent in the fourth quarter of 2015, real gross domestic expenditure declined at an annualised rate of 1,3 per cent in the first quarter of 2016 as real gross domestic final demand shrank notably and was only partly offset by an increase in real inventory holdings. Both real final consumption expenditure by households and real gross fixed capital formation contracted, while growth in real final consumption expenditure by general government slowed over the period.

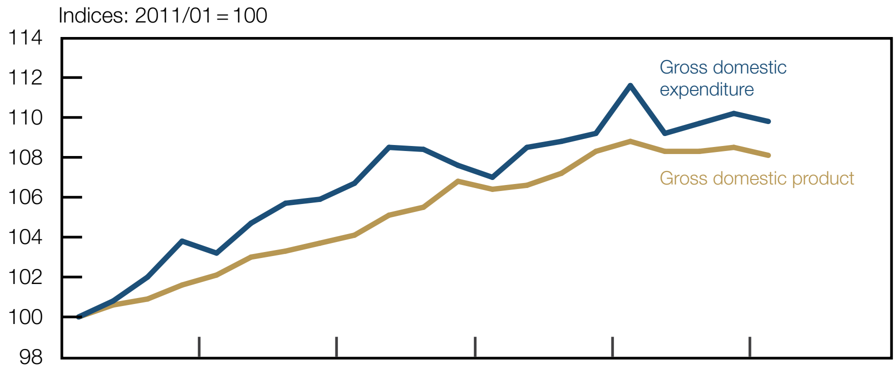
Real gross domestic expenditure

Percentage change at seasonally adjusted annualised rates

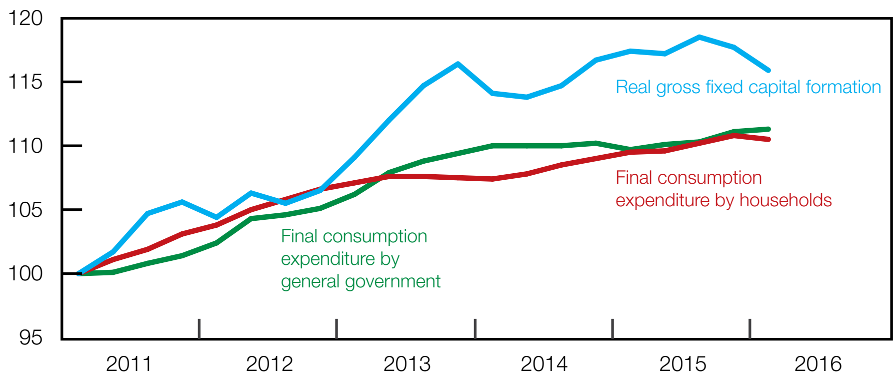
Component	2015					2016
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure						
Households	2,0	0,3	2,4	2,1	1,7	-1,3
General government	-1,7	1,6	0,8	2,6	0,2	1,0
Gross fixed capital formation	2,6	-0,9	4,6	-2,8	2,5	-6,0
Domestic final demand	**1,3**	**0,3**	**2,5**	**1,2**	**1,6**	**-1,8**
Change in inventories (R billions)*	68,4	-10,6	-16,9	-4,2	9,2	3,4
Gross domestic expenditure**	**9,2**	**-8,5**	**1,7**	**1,9**	**1,7**	**-1,3**

* At constant 2010 prices
** Including the residual

Real gross domestic product, expenditure and final demand



Components of real gross domestic final demand



Seasonally adjusted

The contraction in real GDP in the first quarter of 2016 emanated from real final consumption expenditure by households and gross fixed capital formation, which collectively subtracted 2,1 percentage points from total economic growth over the period. The change in real inventories added 1,0 percentage point to growth in real GDP in the first quarter of 2016, while real net exports simultaneously added 0,1 percentage point, as reflected in the accompanying table.

Contribution of expenditure components to growth in real gross domestic product

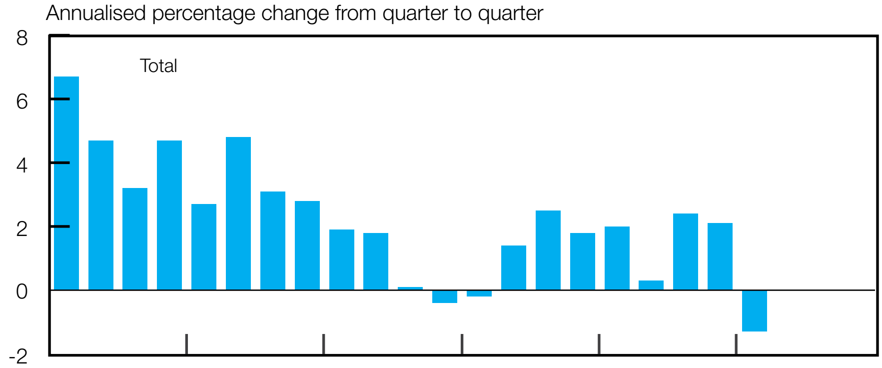
Percentage points

Component	2015					2016
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Final consumption expenditure						
Households	1,2	0,2	1,4	1,3	1,0	-0,8
General government	-0,4	0,3	0,2	0,5	0,1	0,2
Gross fixed capital formation	0,5	-0,2	1,0	-0,6	0,5	-1,3
Change in inventories	7,0	-10,2	-0,8	1,7	0,0	1,0
Net exports	-7,0	6,9	-1,5	-1,5	-0,4	0,1
Residual	0,6	1,0	0,0	-0,9	0,1	-0,5
Gross domestic product	**2,0**	**-2,0**	**0,3**	**0,4**	**1,3**	**-1,2**

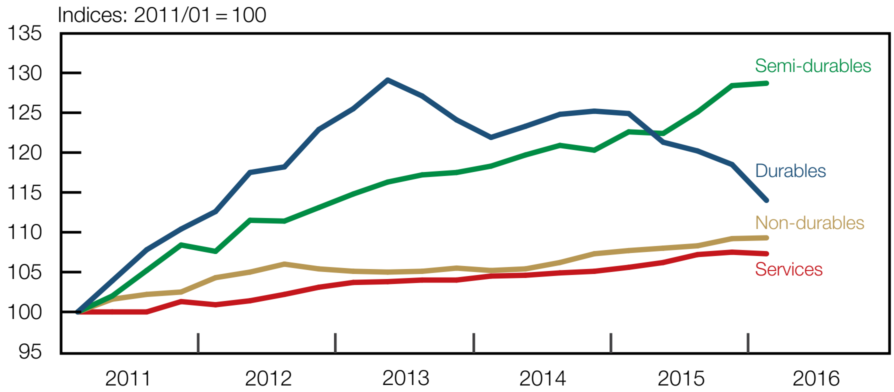
Final consumption expenditure by households

Real consumption expenditure by households contracted in the first quarter of 2016. Following an increase of 2,1 per cent in the fourth quarter of 2015, *real final consumption expenditure by households* shrank at an annualised rate of 1,3 per cent in the first quarter of 2016. This reversal could mainly be attributed to a contraction in real spending on durable goods as well as on services, while growth in real outlays on semi-durable and non-durable goods moderated over the period.

Real final consumption expenditure by households



Components of real final consumption expenditure by households



Seasonally adjusted

Weighed down by the prospects of higher interest rates, real spending by households on *durable goods* declined further in the first quarter of 2016. Following four quarters of uninterrupted negative growth throughout 2015, real outlays on durable goods contracted at an annualised rate of 14,4 per cent in the first quarter of 2016. Real spending on personal transport equipment, recreational and entertainment goods and on personal computers and software declined in the first quarter of 2016 along with a moderation in real outlays on furniture and household appliances. Growth in consumer spending on miscellaneous durable goods increased at a slightly faster pace over the period.

Real final consumption expenditure by households

Percentage change at seasonally adjusted annualised rates

Category	2015					2016
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Durable goods	-1,1	-11,0	-3,6	-5,5	-2,1	-14,4
Semi-durable goods	8,0	-0,6	8,9	11,1	4,0	1,0
Non-durable goods	1,5	1,3	1,1	3,1	2,2	0,7
Services	1,9	2,4	3,6	1,1	1,8	-0,5
Total	**2,0**	**0,3**	**2,4**	**2,1**	**1,7**	**-1,3**

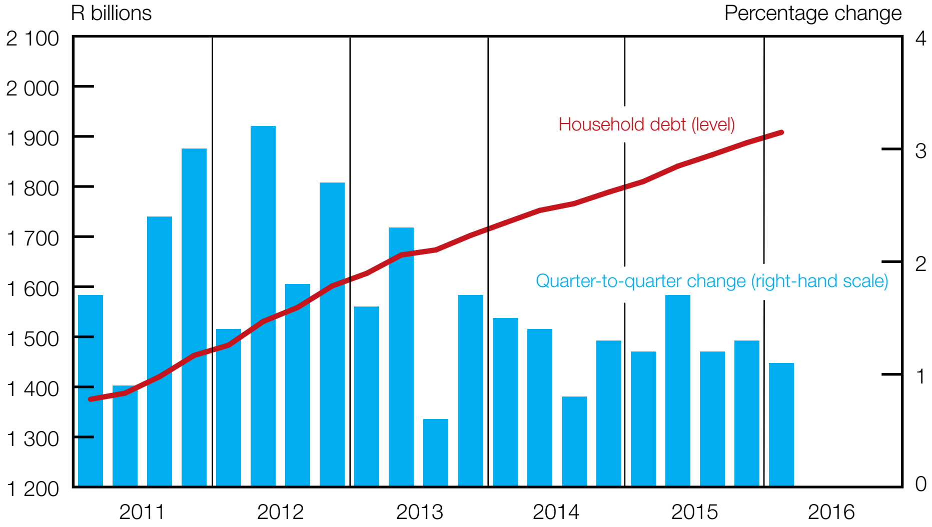
Having advanced at a relatively firm pace of 8,9 per cent in the third quarter and 11,1 per cent in the fourth quarter of 2015, growth in real expenditure on *semi-durable goods* slowed to an annualised rate of only 1,0 per cent in the first quarter of 2016. Real spending on clothing and footwear – the largest component of semi-durable goods – as well as on household textiles, furnishings and glassware, and miscellaneous goods increased at a much slower pace over the period alongside a decline in real outlays on recreational and entertainment goods. By contrast, household spending on motorcar tyres, parts and accessories accelerated as consumers opted to spend money on the upkeep of their vehicles, rather than replacing them with new ones.

Rising prices and weak employment growth hampered spending on *non-durable goods* in the first quarter of 2016. Having increased at a rate of 3,1 per cent in the fourth quarter of 2015, real outlays on non-durable goods rose at a markedly slower pace in the first quarter of 2016, recording an annualised rate of 0,7 per cent over the period. Higher food prices contributed to a decline in expenditure on food, beverages and tobacco, while lower spending on medical and pharmaceutical products, petroleum products as well as recreational and entertainment goods reflected the increased pressure on disposable income over the period. Real consumer outlays on household fuel and power and on household consumer goods accelerated further in the first quarter of 2016.

Following an increase of 1,1 per cent in the fourth quarter of 2015, real spending by households on *services* contracted at a rate of 0,5 per cent in the first quarter of 2016. A decline was registered in spending on miscellaneous services, while expenditure on all other service-related components increased over the period. Real outlays by foreign tourists visiting South Africa increased notably for the second consecutive quarter, facilitated by the relaxation of the earlier more stringent visa regulations and the depreciated external value of the rand.

Alongside a slower pace of increase in the compensation of employees, growth in the *real disposable income of households* moderated from an annualised rate of 1,8 per cent in the fourth quarter of 2015 to 0,4 per cent in the first quarter of 2016.

Household debt

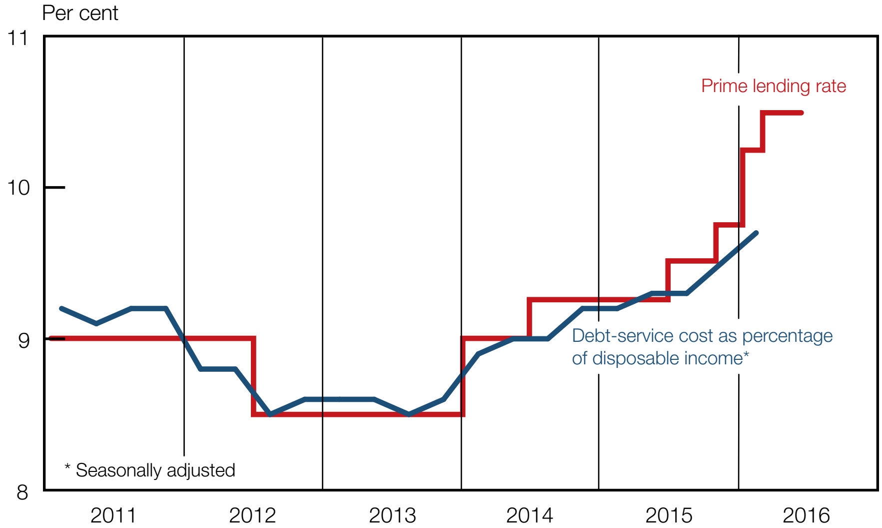


Seasonally adjusted

Consistent with the modest increase in nominal spending by households in the first quarter of 2016, growth in household debt slowed, reflecting a slower pace of increase in almost all categories.

As a percentage of disposable income, household debt inched lower from 77,0 per cent in the fourth quarter of 2015 to 76,6 per cent in the first quarter of 2016. Reflecting the measured increases in lending rates since January 2014, the cost of servicing household debt as a percentage of disposable income increased from 9,5 per cent in the fourth quarter of 2015 to 9,7 per cent in the first quarter of 2016.

Household debt-service cost and prime lending rate



Final consumption expenditure by general government

Growth in *real final consumption expenditure by general government* moderated further in the first quarter of 2016. Having increased at an annualised rate of 2,6 per cent in the fourth quarter of 2015, growth in real government consumption expenditure decelerated to 1,0 per cent in the first quarter of 2016. Consistent with government's objective to restrain expenditure and to keep public debt within acceptable limits, real outlays in the first quarter of 2016 reflected a moderation in spending on real compensation of employees alongside a decline in the purchases of non-wage goods and services.

An increase in real compensation, related to the recruitment of additional workers to assist the Independent Electoral Commission (IEC) with the upcoming elections in August 2016, was fully offset by a slower rate of increase in the real compensation of employees in provincial and local government. As a consequence, the ratio of final consumption expenditure by general government to GDP inched lower, from 20,8 per cent in the fourth quarter of 2015 to 20,7 per cent in the first quarter of 2016.

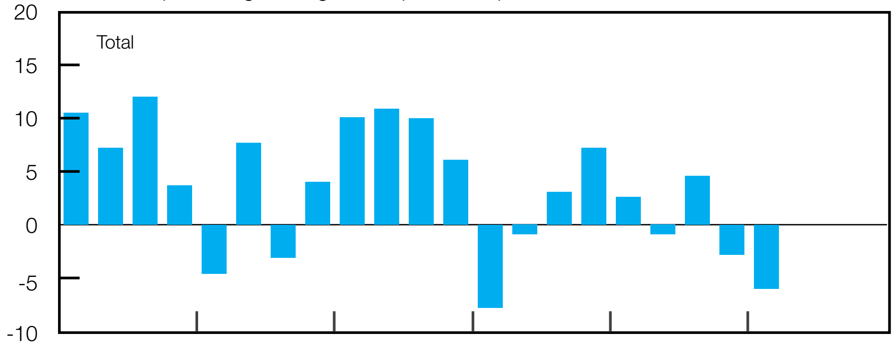
Fixed capital formation

The contraction in *real gross fixed capital formation* intensified further in the first quarter of 2016. Following a decline of 2,8 per cent in the fourth quarter of 2015, real capital outlays shrank at an annualised rate of 6,0 per cent in the first quarter of 2016. Fixed capital expenditure by both private business enterprises and general government decreased markedly, whereas public corporations raised their level of capital outlays somewhat in the first quarter of 2016.

Following a quarter-to-quarter annualised decline of 4,4 per cent in the fourth quarter of 2015, real gross fixed capital formation by *private business enterprises* contracted at a rate of 6,8 per cent in the first quarter of 2016, consistent with the subdued state of the economy. The contraction reflected lower capital spending on machinery and equipment as well as commercial transport equipment over the period. Viewed by industry, the contraction in real fixed capital formation was widespread, with notable decreases recorded in private transport services and mining. Capital spending in the drought-stricken agricultural sector increased over the period, although from a low base.

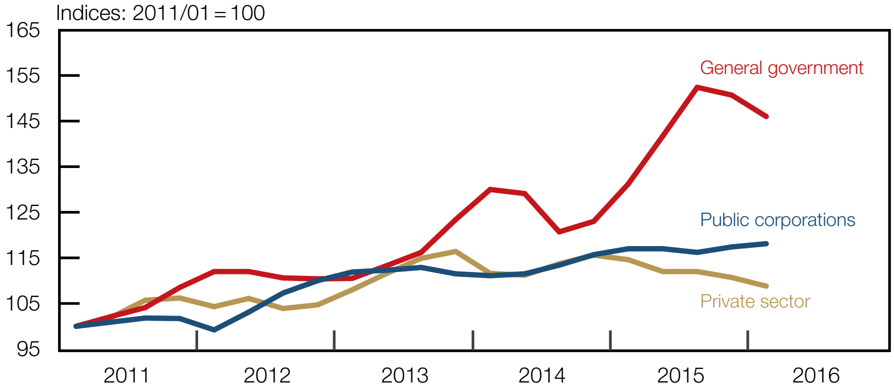
Real gross fixed capital formation

Annualised percentage change from quarter to quarter



Components of real gross fixed capital formation

Indices: 2011/01 = 100



Seasonally adjusted

Growth in real fixed capital expenditure by *public corporations* slowed over the period, registering annualised rates of increase of 4,1 per cent in the fourth quarter of 2015 and 2,5 per cent in the first quarter of 2016. With the exception of Eskom, all other major public corporations reduced their capital spending compared to the final quarter of 2015. Eskom stepped up spending, in particular on construction works and on machinery and equipment related to its Medupi, Kusile and Ingula power stations. Capital outlays by Transnet on locomotives, as part of its railway modernisation and expansion project, tapered off over the period. The lower level of capital spending by other public corporations reflected the slower uptake of new projects together with a series of unplanned delays to current projects.

Real gross fixed capital formation

Percentage change at seasonally adjusted annualised rates

Sector	2015					2016
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Private business enterprises	-3,4	-9,0	0,0	-4,4	-0,6	-6,8
Public corporations	4,4	0,1	-2,9	4,1	3,5	2,5
General government	29,5	36,3	33,5	-4,4	14,6	-11,9
Total	**2,6**	**-0,9**	**4,6**	**-2,8**	**2,5**	**-6,0**

Having contracted at an annualised rate of 4,4 per cent in the fourth quarter of 2015, real gross fixed capital formation by *general government* declined significantly at an annualised rate of 11,9 per cent in the first quarter of 2016. The deceleration in growth was evident in lower capital spending on social and economic infrastructure over the period.

Inventory investment

Having declined by R4,2 billion (annualised and at constant 2010 prices) in the fourth quarter of 2015, *real inventory holdings* increased by R3,4 billion in the first quarter of 2016, adding 1,0 percentage point to growth in real GDP over the period. The build-up of inventories in the first quarter of 2016 was supported by a surge in orders placed over the period, and was further boosted by pre-emptive stocking in anticipation of possible price increases in response to the notable depreciation in the exchange rate of the rand over the past two quarters.

Inventory holdings of agricultural stocks-in-trade increased over the period, while real inventories in the commerce sector registered a slower pace of accumulation. The level of industrial and commercial inventories as a percentage of annualised non-agricultural GDP increased from 12,7 per cent in the fourth quarter of 2015 to 13,2 per cent in the first quarter of 2016.

Factor income

Growth in *total nominal factor income*, measured over four quarters, accelerated from 5,0 per cent in the fourth quarter of 2015 to 6,3 per cent in the first quarter of 2016, reflecting higher growth in both compensation of employees and gross operating surpluses of business enterprises.

The year-on-year rate of increase in total *compensation of employees* edged higher from 7,9 per cent in the fourth quarter of 2015 to 8,6 per cent in the first quarter of 2016, mainly reflecting firm growth in the remuneration of employees in the finance, real-estate and business services sector and the general government sector. According to the *Wage Settlement Survey* conducted by Andrew Levy Employment Publications, the average wage settlement rate inched lower to 7,8 per cent in the first quarter of 2016 compared with an average settlement rate of 7,9 per cent in the corresponding period in 2015. The share of total compensation of employees in total factor income edged higher from 54,1 per cent in the fourth quarter of 2015 to 54,4 per cent in the first quarter of 2016.

Measured over a year, growth in the overall *gross operating surplus* accelerated notably, from 1,5 per cent in the fourth quarter of 2015 to 3,8 per cent in the first quarter of 2016. The pickup was concentrated in the agricultural, trade, finance and general government subsectors, whereas gross operating surpluses in the electricity, transport and communication subsectors increased at a slower pace. While the operating surplus of the manufacturing sector recorded a slower rate of decline in the first quarter, business conditions in the sector remained tight. Activity in the South African mining industry continued to be adversely affected by rising operational costs, subdued commodity prices and weak global demand for minerals, resulting in the operating surplus in the sector also continuing to record year-on-year declines. Despite the increase in the overall gross operating surplus, its share in total factor income inched lower from 45,9 per cent in the fourth quarter of 2015 to 45,6 per cent in the first quarter of 2016, with employees' compensation gaining ground.

Gross saving

South Africa's *national saving rate* deteriorated in the first quarter of 2016. Measured as a percentage of GDP, gross saving weakened from 15,4 per cent in the fourth quarter of 2015 to 15,0 per cent in the first quarter of 2016. A decline in corporate saving more than offset advances in saving by the government and household sectors over the period.

The part of gross capital formation to be financed through a net inflow of foreign capital increased somewhat from 23,2 per cent in the fourth quarter of 2015 to 25,1 per cent in the quarter under review.

The saving rate of the *incorporated business enterprises* weakened from 14,8 per cent of GDP in the fourth quarter of 2015 to 13,5 per cent in the first quarter of 2016. Dividend payments by the corporate sector in the first quarter of 2016 were substantially higher than in the fourth quarter of 2015. Operating surpluses also increased at a slower pace during the first quarter, reflecting the continuing tight economic conditions in the country.

Gross saving by *general government* as a ratio of GDP switched from -0,2 per cent in the fourth quarter of 2015 to 0,3 per cent in the first quarter of 2016. The improvement in government's saving could be attributed to a brisk increase in tax revenue, which rose at an annualised growth rate of around 16 per cent in the first quarter, buoyed by customs duty, personal income tax and value-added tax collections. Government saving was also positively influenced by a slower pace of increase in government consumption expenditure in the first quarter of 2016.

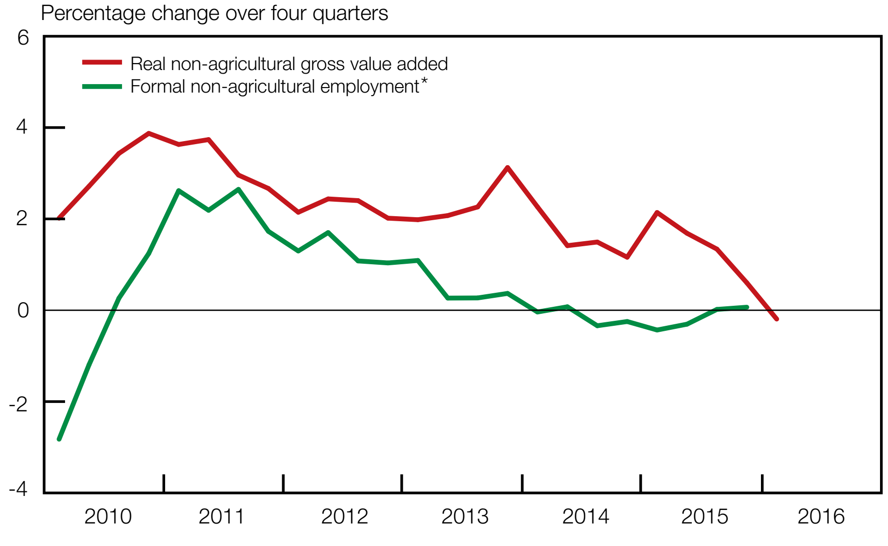
Gross saving by the *household sector* as a percentage of GDP rose from 0,9 per cent in the final quarter of 2015 to 1,1 per cent in the first quarter of 2016. Growth in private consumption expenditure fell short of that in households' disposable income, which was boosted by an uptick in compensation of employees.

Employment

Amid an environment of slowing domestic and global output growth, total formal non-agricultural employment nonetheless increased somewhat in the fourth quarter of 2015. According to the *Quarterly Employment Statistics* (*QES*) survey published by Statistics South Africa (Stats SA), employment increased by 0,8 per cent on a seasonally adjusted and annualised basis in the final quarter of 2015, with formal non-agricultural employment increasing by 17 800 job opportunities to an estimated level of 8,97 million.[2] However, annual average growth in formal non-agricultural employment slowed continuously from a rate of 2,3 per cent in 2011 to -0,5 per cent in 2015, consistent with the downward phase in the business cycle that commenced in December 2013.

2 The *QES* data reported in this section are seasonally adjusted, unless stated to the contrary.

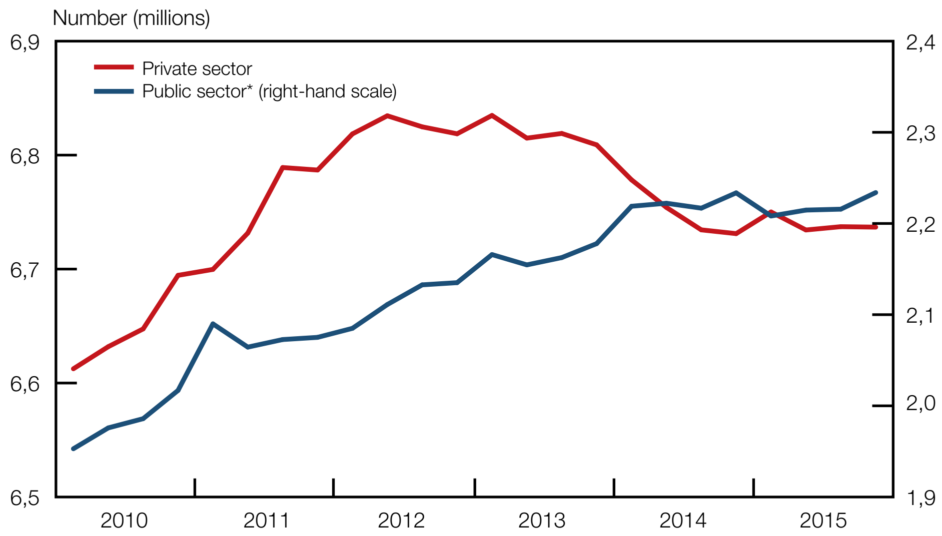
Formal non-agricultural output and employment



* Corrected for election-related outliers

The pickup in formal non-agricultural employment in the fourth quarter of 2015 resulted entirely from an increase in public-sector employment at a rate of 3,3 per cent. Employment levels increased notably at local government level, largely due to increased employment of workers by various municipalities for projects under the Expanded Public Works Programme. In addition, employment levels increased markedly at other public-sector enterprises, as extra-budgetary institutions increased their staff complement following the appointment of additional workers to assist with municipal elections. Employment at provincial level also increased somewhat in the fourth quarter of 2015. However, job-shedding occurred at national departments, following two quarters of notable increases due to the transfer of approximately 35 000 employees of technical vocational education and training colleges (former further education and training or FET colleges) and community and education training colleges (CETC) from the provinces to the national Department of Higher Education and Training.

Formal non-agricultural employment



* Corrected for election-related outliers

By contrast, private-sector employment remained virtually unchanged in the fourth quarter following a marginal increase in the third quarter of 2015. Employment gains were registered in the finance, insurance, real-estate and business services sector; the gold-mining sector; the trade, catering and accommodation services sector; and the private community, social and personal services sector. These gains were, however, entirely offset by job losses in the non-gold mining sector; the construction sector; the manufacturing sector; and the private transport, storage and communication sector.

The accompanying table shows that around 166 000 formal private-sector employment opportunities were created between the second quarter of 2010 and the first quarter of 2014 – the most recent upward phase in the employment cycle. During the ensuing downward phase, roughly 41 500 private-sector jobs were shed up to the fourth quarter of 2015. Job losses occurred primarily in the goods-producing sectors of the economy over this period. In fact, in the mining, manufacturing and construction sectors a combined total of 85 800 jobs were lost from the second quarter of 2014 to the fourth quarter of 2015. However, the services sectors of the economy continued to create employment opportunities over this period. The accompanying graph shows the moderation in both the composite coincident business cycle indicator and private-sector employment growth in recent years, illustrating how the prolonged period of sluggish domestic output growth – characterised by persistent low confidence levels and weakening domestic and global demand – has substantially undermined private-sector employment creation.

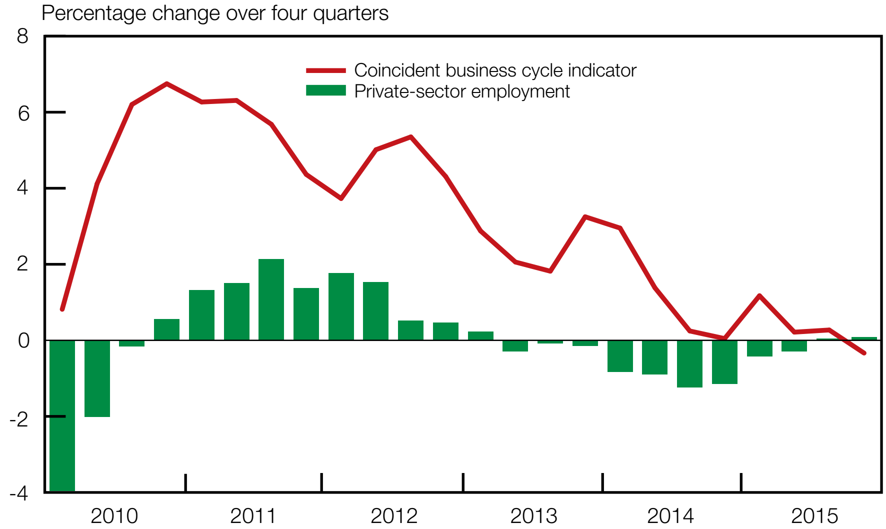
Change in enterprise-surveyed formal non-agricultural employment by sector*

Sector	Change over one quarter 4th qr 2015		Change over four quarters to 4th qr 2015		Cumulative job losses (-) gains (+)	
	Number	Per cent annualised	Number	Per cent	2nd qr 2010 to 1st qr 2014	2nd qr 2014 to 4th qr 2015
Total mining	-14 000	-11,2	-28 900	-5,9	600	-29 100
Gold mining	900	3,1	-1 900	-1,6	-41 100	-2 900
Other mining	-14 900	-15,5	-27 000	-7,2	41 700	-26 300
Manufacturing	-4 000	-1,4	-5 000	-0,4	-47 200	-24 600
Construction	-8 700	-7,0	-19 000	-3,9	5 500	-32 100
Trade, catering and accommodation services	9 600	2,1	35 700	1,9	58 600	39 100
Private transport, storage and communication services	- 900	-1,2	100	0,0	3 200	-7 900
Finance, insurance, real-estate and business services	16 100	3,3	22 600	1,1	120 600	12 700
Community, social and personal services	1 400	1,2	200	0,0	24 500	500
Total private sector	**- 400**	**0,0**	**5 700**	**0,1**	**165 800**	**-41 500**
National departments	-5 400	-4,3	30 700	6,8	43 900	27 200
Provinces	3 800	1,4	-36 900	-3,3	109 600	-32 000
Local governments	13 000	18,0	4 600	1,5	71 900	8 200
Public transport, storage and communication services	-1 600	-4,9	-6 200	-4,8	26 700	-5 600
Other public-sector enterprises, including electricity and IEC**	8 400	16,5	8 100	3,8	13 900	17 200
Total public sector	**18 200**	**3,3**	**300**	**0,0**	**266 100**	**14 900**
Grand total	**17 800**	**0,8**	**6 000**	**0,1**	**431 900**	**-26 600**

* Seasonally adjusted. Components may not add to totals due to rounding.
** Independent Electoral Commission

Source: Statistics South Africa, *Quarterly Employment Statistics* (*QES*) survey

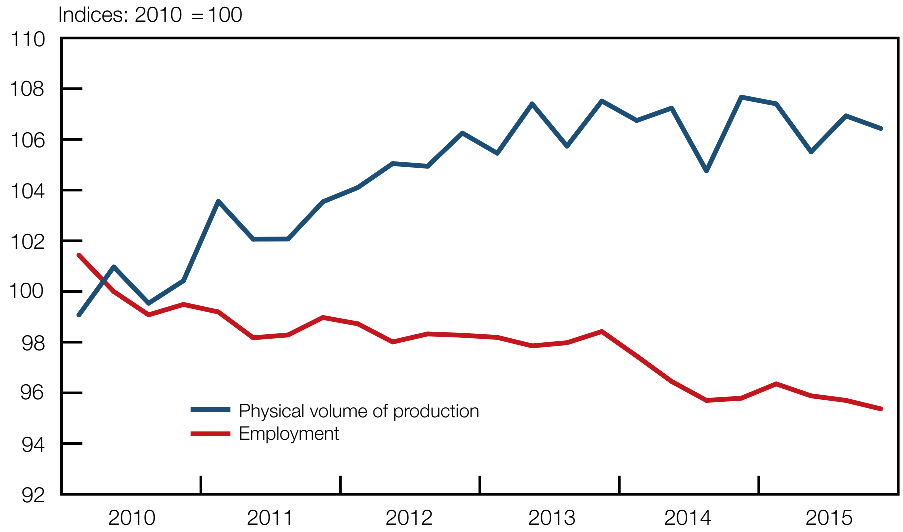
Composite coincident business cycle indicator and private-sector employment



Mining-sector employment decreased for a fifth successive quarter in the fourth quarter of 2015, with the pace of job-shedding accelerating further. Although employment increased somewhat in the gold-mining sector in the fourth quarter of 2015, the pace of job-shedding accelerated notably in the non-gold mining sector, following ongoing restructuring of mining operations in the face of a sustained weakening in global demand for mining commodities. While the steady depreciation in the exchange rate of the rand in recent years has shielded some mining companies to an extent, this was not enough to fully compensate for the decline in the United States (US) dollar-denominated prices of commodities. Reduced global demand, coupled with an oversupply of many commodities, has resulted in production cutbacks and the postponement of new investment projects. In addition, developments in labour relations will be crucial for employment prospects in the mining sector this year, as new wage agreements will be negotiated in the gold, platinum and coal mining industries later in 2016.

Manufacturing-sector employment decreased for a third successive quarter in the fourth quarter of 2015, with the pace of labour paring accelerating somewhat. The manufacturing sector has been struggling for a prolonged period, as evidenced by the volume of manufacturing output that has remained virtually stagnant since 2013. As such, the Manufacturing Survey of Stellenbosch University's Bureau for Economic Research (BER) reported that business confidence among manufacturers deteriorated to a level last seen during the 2008–09 recession, falling by 16 index points to 18 index points in the first quarter of 2016. Softer domestic demand continued to weigh on confidence, as respondents indicated a notable decline in domestic sales and order volumes in the first quarter of 2016. Respondents indicated that the weaker exchange rate of the rand had failed to lift export volumes, but instead led to higher costs due to the high import propensity of the domestic economy. With the survey reporting a significant rise in slack capacity in the sector, manufacturers expect fixed investment to decline over the medium term. Owing to the numerous headwinds faced by the sector, employment prospects in the manufacturing sector remain bleak, with a net majority of respondents indicating a decline in employment levels in the first quarter of 2016.

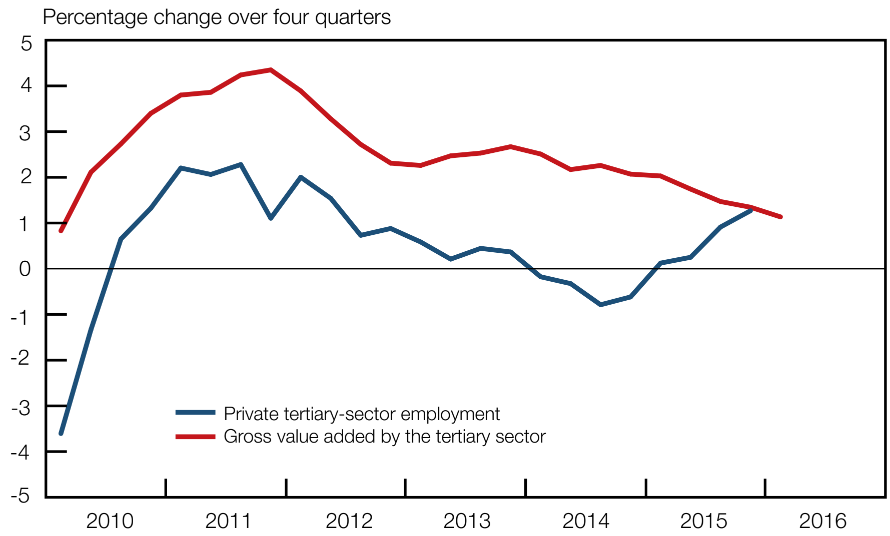
Manufacturing production and employment



Similar to the manufacturing sector, employment levels in the construction sector contracted at an accelerated pace in the fourth quarter of 2015. In fact, construction-sector employment decreased for six consecutive quarters up to the fourth quarter of 2015, representing a cumulative loss of 34 100 job opportunities. The decline in construction-sector employment was consistent with waning confidence in the building and civil construction sectors. The First National Bank (FNB)/BER Building Confidence Index fell from 48 index points in the fourth quarter of 2015 to 39 in the first quarter of 2016 as building activity remained under pressure. Similarly, the FNB/BER Civil Confidence Index dipped by 14 index points to 28 over the same period – its lowest level since the end of 2011 – dragged down by a noticeable drop in construction activity.

Contrary to the goods-producing sectors of the economy, employment growth in the services sectors accelerated somewhat in the fourth quarter of 2015, consistent with sustained positive, albeit moderating, growth in the real value added by the tertiary sector. Job creation in the finance, insurance, real-estate and business services sector picked up for a second successive quarter in the fourth quarter of 2015, while employment in the trade, catering and accommodation services sector increased for four successive quarters up to the fourth quarter of 2015. The Ernest & Young (EY)/BER Retail Survey for the first quarter of 2016 showed that underlying conditions in the trade sector remained unsupportive of a meaningful acceleration in consumer spending. Despite improving somewhat in the first quarter of 2016, business confidence among retailers, wholesalers and new vehicle dealers was marred by low sales volumes and accelerating price inflation, with respondents expecting tough trading conditions going forward. This could moderate the pace of services-sector employment growth in 2016.

Tertiary-sector employment and output



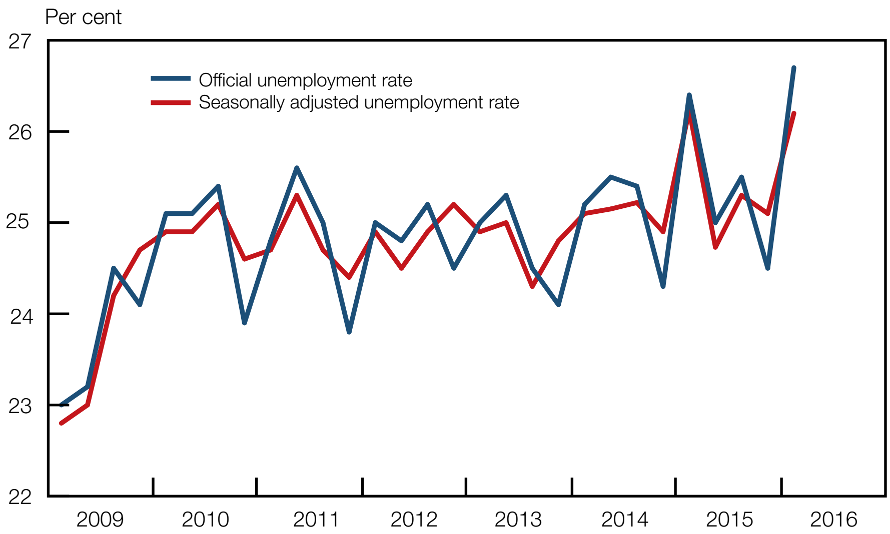
According to the *Quarterly Labour Force Survey* (*QLFS*) conducted by Stats SA, the number of persons employed in South Africa decreased by 355 000 from the fourth quarter of 2015 to the first quarter of 2016, bringing the total level of employment to roughly 15,66 million.[3] Employment numbers are usually suppressed in the first quarter of each year by a reduction in seasonal workers employed in the fourth quarter of each year in the trade, catering and accommodation services sector in particular. In addition, many school leavers join the labour force in the first quarter of each year. Although total employment increased by 204 000 in the year to the first quarter of 2016, the year-on-year growth rate moderated notably to 1,3 per cent, down from 4,6 per cent in the fourth quarter of 2015 as the base normalised after the implementation of a new master sample a year earlier. Annual employment gains were recorded in the community and social services sector, followed by the trade, construction, mining and finance sectors. Conversely, annual employment losses were recorded in the manufacturing, private household, electricity, agriculture and transport sectors. The formal non-agricultural sector and the informal sector added 167 000 and 90 000 employment opportunities respectively in the year to the first quarter of 2016.

3 The *QLFS* outcome for 2016 represents the first comparable year-on-year results following the implementation of the redesigned 2013 master sample in the first quarter of 2015 by Stats SA.

The number of unemployed persons increased notably by 521 000 from the fourth quarter of 2015 to the first quarter of 2016, and by 179 000 in the year to the first quarter of 2016, bringing the total number of unemployed South Africans to around 5,71 million. The number of discouraged job seekers increased by 53 000 in the year to the first quarter of 2016. As unemployment grew at a faster pace than employment in the year to the first quarter of 2016, the official unemployment rate increased to 26,7 per cent from 26,4 per cent a year earlier. The seasonally adjusted unemployment rate increased notably from 25,1 per cent in the fourth quarter of 2015 to 26,2 per cent in the first quarter of 2016.[4] Disconcertingly, the youth unemployment rate rose markedly to 54,5 per cent in the first quarter of 2016 from 50,4 per cent a year earlier.

4 The unemployment rate was seasonally adjusted by the South African Reserve Bank.

Unemployment rate



Labour cost and productivity

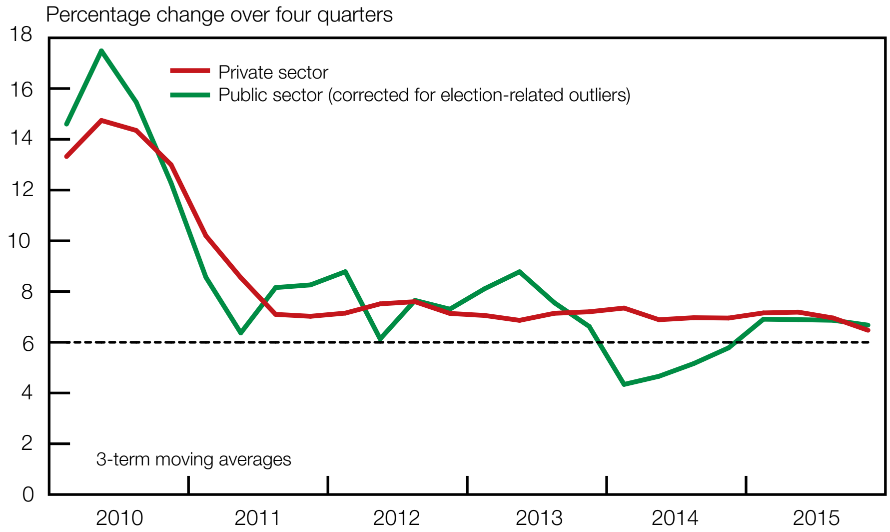
The year-on-year pace of increase in nominal remuneration per worker in the formal non-agricultural sector of the economy decelerated for a second successive quarter, from 6,6 per cent in the third quarter of 2015 to 5,7 per cent in the fourth quarter. However, on an annual average basis, remuneration growth per worker accelerated from 6,5 per cent in 2014 to 6,9 per cent in 2015. Although real wage growth per worker also decelerated from the third to the fourth quarter of 2015, it nevertheless remained positive at 2,0 per cent in the fourth quarter of 2015. On an annual average basis, real remuneration growth per worker in fact quickened notably from 0,9 per cent in 2014 to 3,6 per cent in 2015, following an acceleration in nominal remuneration growth per worker coupled with a moderation in price inflation in 2015.

The slowdown in nominal remuneration growth in the fourth quarter of 2015 resulted entirely from a notable moderation in remuneration growth per worker in the private sector, from a year-on-year rate of 6,7 per cent in the third quarter of 2015 to 5,0 per cent in the fourth quarter. The moderation in remuneration growth was broad-based among subsectors in the private sector: wage growth moderated in the finance, insurance, real-estate and business services sector (to 5,8 per cent); the manufacturing sector (to 4,5 per cent); the private community, social and personal services sector (to 4,3 per cent); the trade, catering and accommodation services sector (to 3,7 per cent); and in the private transport, storage and communication services sector (to 2,1 per cent). Only the mining and construction sectors registered accelerations in wage growth in the year to the fourth quarter of 2015, to 10,2 per cent and 5,1 per cent respectively.

By contrast, public-sector remuneration growth quickened from 6,2 per cent in the third quarter of 2015 to 7,2 per cent in the fourth quarter. Nominal wage growth accelerated at all public-sector tiers, with the exception of the public transport, storage and communication sector. On an annual average basis, public-sector remuneration growth per worker accelerated markedly from a fairly subdued 4,4 per cent in 2014 to 8,3 per cent in 2015.

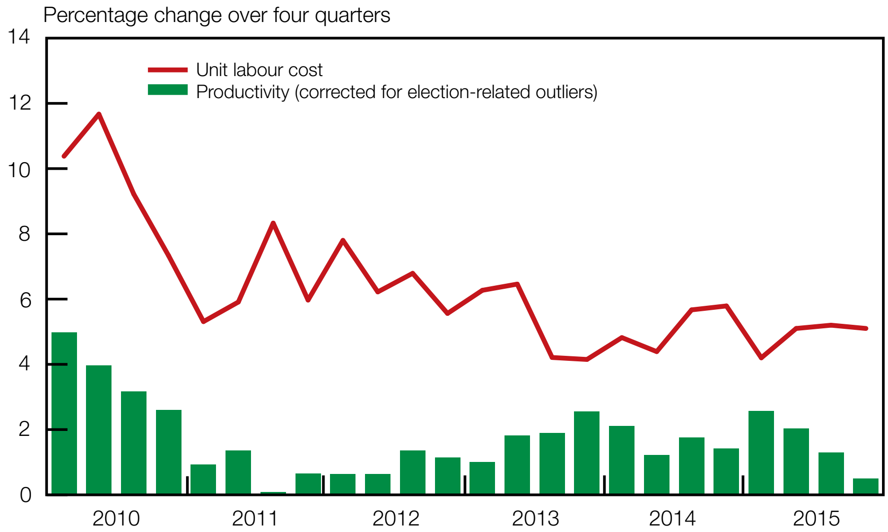
According to Andrew Levy Employment Publications, the average wage settlement rate in collective bargaining agreements moderated marginally from 7,9 per cent in the first quarter of 2015 to 7,8 per cent in the first quarter of 2016, slightly higher than the 7,7 per cent recorded for 2015 as a whole. Similarly, the number of working days lost due to strike action increased marginally from a relatively low 80 000 in the first quarter of 2015 to 90 000 in the first quarter of 2016.

Nominal remuneration per worker



With year-on-year output growth slowing markedly and year-on-year employment growth accelerating marginally in the fourth quarter of 2015, growth in labour productivity in the formal non-agricultural sector of the economy more than halved from 1,3 per cent in the third quarter of 2015 to 0,5 per cent in the fourth quarter. Similarly, productivity growth in the manufacturing sector decelerated markedly, from 2,1 per cent to -0,7 per cent over the same period, as manufacturing output contracted at a faster pace than employment. Owing to year-on-year remuneration growth decelerating at almost the same pace as year-on-year output growth, growth in nominal unit labour cost slowed only marginally from 5,2 per cent in the third quarter of 2015 to 5,1 per cent in the fourth quarter; while not a targeted variable, it remained comfortably within the inflation target range for a tenth successive quarter.

Formal non-agricultural labour productivity and nominal unit labour cost

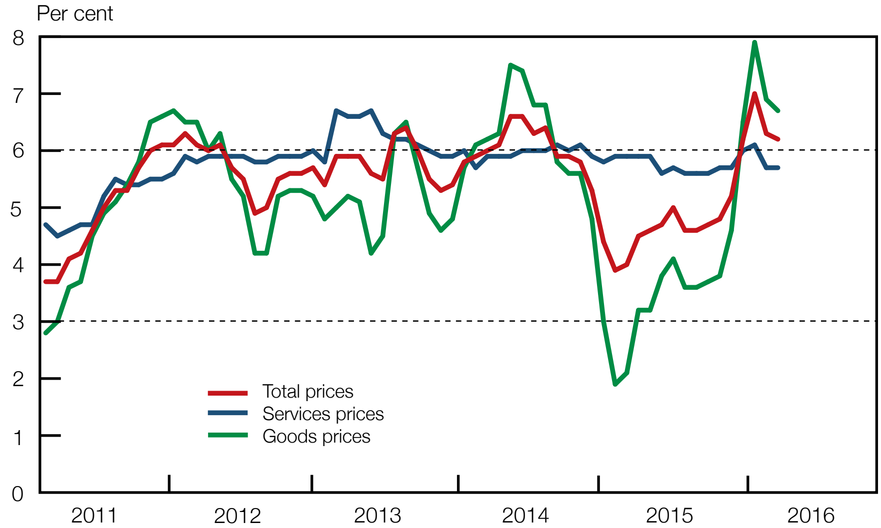


Prices

Despite a gradual moderation in domestic demand and output growth throughout 2015 and into 2016, inflationary pressures nevertheless intensified steadily throughout this period. Headline consumer price inflation initially accelerated gradually from a low of 3,9 per cent in February 2015 to 4,8 per cent in November, before quickening notably to 7,0 per cent in February 2016 – its highest level in almost seven years.[5] The marked acceleration in consumer price inflation in the opening months of 2016 resulted largely from a notable quickening in food price inflation in response to severe drought conditions as well as the depreciation in the exchange rate of the rand which intensified in late 2015 and early 2016. Subsequently, consumer price inflation moderated to 6,2 per cent in April 2016, largely due to favourable base effects related to petrol price inflation and lower-than-anticipated services price inflation. Headline consumer price inflation breached the upper level of the inflation target range of 6 per cent for the first time in January 2016 after having remained within the inflation target for 16 consecutive months from September 2014.

5 All rates mentioned reflect year-on-year changes, unless stated to the contrary.

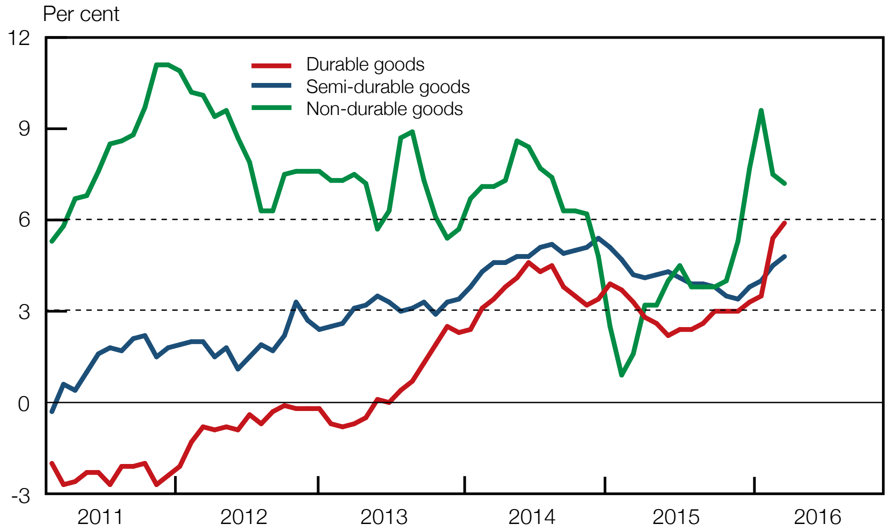
Consumer price inflation



Following an uptick in mining commodity prices, sharply rising food prices and the depreciation in the exchange rate of the rand, most measures of producer price inflation accelerated in the opening months of 2016. Twelve-month producer price inflation for final manufactured goods accelerated notably to 8,1 per cent in February 2016 before slowing somewhat to 7,0 per cent in April as price inflation quickened across a fairly broad range of product categories. Likewise, intermediate manufactured goods price inflation accelerated from rates of deflation in mid-2015 to 7,1 per cent in April 2016. Producer price inflation for mining products accelerated notably in the opening months of 2016, from -0,7 per cent in December 2015 to 10,3 per cent in April 2016, as the prices of gold and metal ores in particular rose steeply. Similarly, producer price inflation for agriculture, forestry and fishing products accelerated markedly from a recent low of 5,2 per cent in September 2015 to 24,9 per cent in February 2016, before receding somewhat to 16,9 per cent in April. The majority of agricultural producer product prices rose sharply over this period as a consequence of the prolonged drought conditions experienced in large parts of the country. Producer price inflation for electricity and water slowed from 14,1 per cent in December 2015 to a still elevated 12,3 per cent in April 2016 on account of a moderation in electricity price inflation.

Recent outcomes in headline consumer price inflation were largely shaped by movements in consumer goods price inflation, in particular that of non-durable goods. Consumer goods price inflation more than doubled within three months, accelerating from 3,8 per cent in November 2015 to 7,9 per cent in February 2016, before moderating to 6,7 per cent in April. This resulted almost entirely from a marked acceleration in non-durable goods price inflation that quickened to 9,6 per cent in February 2016 before receding to 7,2 per cent in April. The sharp acceleration in non-durable goods price inflation was in turn driven largely by a quickening in food and petrol price inflation, while the recent moderation resulted from a marked slowdown in petrol price inflation due to the high base that was created a year earlier.

Consumer goods price inflation



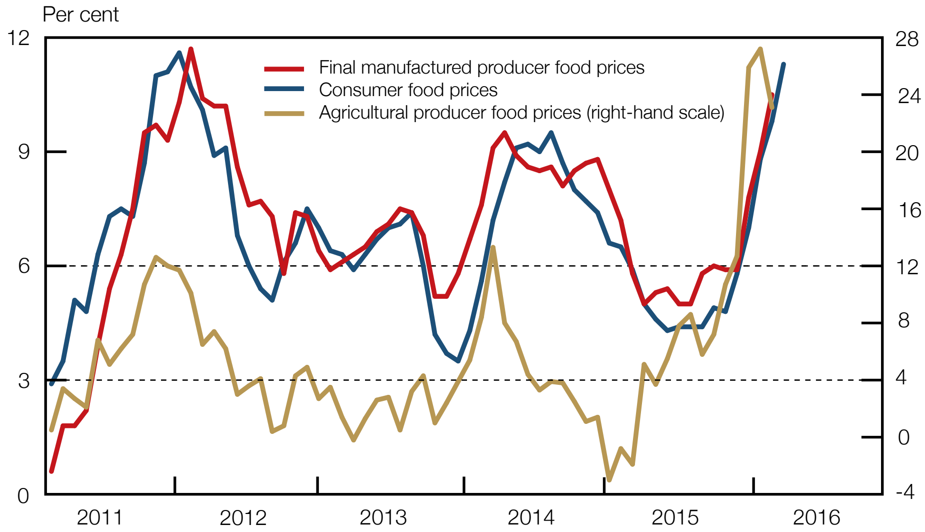
After remaining fairly subdued during most of 2015, durable and semi-durable goods price inflation accelerated in recent months, largely in response to the depreciation in the exchange rate of the rand throughout 2015 and early in 2016. Semi-durable goods price inflation quickened from 3,4 per cent in December 2015 to 4,8 per cent in April 2016 as price inflation for clothing, footwear and books accelerated over the period. Similarly, durable goods price inflation accelerated from 3,0 per cent to 5,9 per cent over the same period – its highest level in seven years – following a quickening in price inflation for new motor vehicles and household appliances.

Consumer services price inflation has fluctuated within a very narrow range around the upper limit of the inflation target range of 6,0 per cent for the past four years. Recently, consumer services price inflation quickened from 5,7 per cent in December 2015 to 6,1 per cent in February 2016, largely due to a food-price-induced acceleration in restaurant services price inflation coupled with a marked rise in lottery ticket prices. Subsequently, services price inflation receded again to 5,7 per cent in March and April 2016 as price inflation for owners' equivalent rent and, in particular, education moderated. Following the *#FeesMustFall* campaign, tertiary education fees remained unchanged in the year to March 2016, resulting in education services price inflation slowing notably from 9,3 per cent in February 2016 to 4,7 per cent in both March and April.

The US dollar-denominated international food price index of the Food and Agriculture Organization (FAO) of the United Nations increased for three consecutive months to April 2016 due to rising vegetable and sugar prices. However, the year-on-year change remained negative, despite accelerating from -21,8 per cent in August 2015 to -9,9 per cent in April 2016. Expressed in South African rand terms, the FAO food price index receded in the three months to April 2016 due to the appreciation in the exchange rate of the rand over the period, but the year-on-year rate of change remained elevated at 9,8 per cent in April following the earlier depreciation in the exchange rate of the rand. International cereals prices continued to recede in the opening months of 2016 on account of favourable supplies, high inventory levels, increased competition and an improved outlook for maize plantings in the US. Largely due to exchange rate movements, the twelve-month change in the FAO international cereals price index (expressed in rand terms) remained elevated, but nevertheless moderated from 19,1 per cent in January 2016 to 9,2 per cent in April. Nonetheless, despite lower global cereal prices, domestic maize and wheat prices have continued to rise to all-time high levels. This was initially due to a significantly reduced 2015 domestic maize crop following the severe drought, but exacerbated more recently by expectations of a further reduced 2016 maize crop following much lower plantings than the previous season alongside the depreciated exchange rate.

The drought-induced sharp rise in domestic maize and wheat prices resulted in a marked acceleration in agricultural producer food price inflation, from 5,8 per cent in September 2015 to 27,2 per cent in February 2016, before moderating to 17,0 per cent in April. In fact, producer price inflation for cereals and other crops accelerated notably to 79,2 per cent in January 2016 before receding to 42,4 per cent in April. The rise in domestic maize prices was exacerbated by the fact that South Africa had to import maize following the disappointing harvest and to cover the drought shortfall. More maize will have to be imported for the new season, from May 2016 to April 2017, to make up for the expected large shortfall in the domestic harvest. In addition, the severe heat experienced in December 2015 and January 2016 resulted in a marked acceleration in producer price inflation for vegetables and fruit in the opening months of 2016. In a lagged response to the drought conditions, producer price inflation for live animals quickened from 1,0 per cent in January 2016 to 9,6 per cent in March, before receding to 3,2 per cent in April.

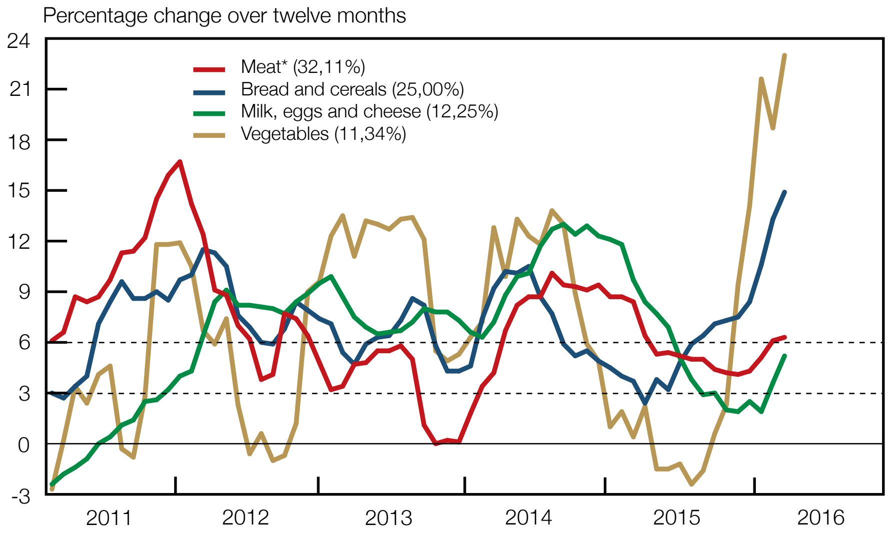
Producer and consumer food prices



Producer food price inflation at the manufactured level has also accelerated in recent months, from 5,9 per cent in December 2015 to 10,9 per cent in April 2016. Price inflation accelerated in the majority of subcategories over this period, in particular for grain mill, starch and animal feed products, oils and fats, bakery products and sugar, all of which recorded double-digit price increases in the year to April 2016.

Consumer food price inflation responded to the acceleration in producer food price inflation without much delay, quickening from 4,8 per cent in November 2015 to 11,3 per cent in April 2016 – its highest level in 52 months. Although initially led by the bread and cereals category, the acceleration in consumer food price inflation has become more broad-based in recent months. A further acceleration in bread and cereal price inflation to 14,9 per cent in April 2016 was complemented by noteworthy accelerations in milk, eggs and cheese, as well as in meat and, in particular, vegetable price inflation. The accompanying graph shows that inflation for these four food product categories – together accounting for 81 per cent of the total consumer food price basket – all accelerated in recent months, amounting to a combined weighted average rate of 12,8 per cent in April 2016.

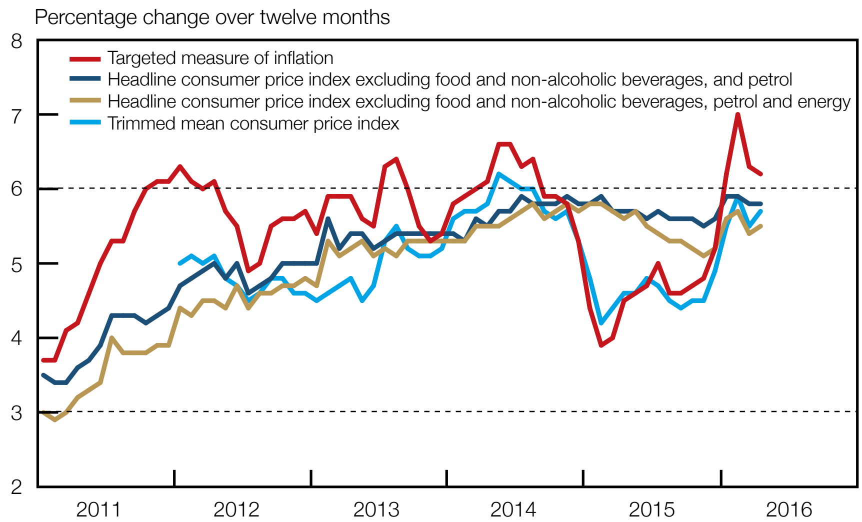
Consumer food price inflation



* Numbers in brackets indicate weights in the consumer food price basket

After moderating throughout 2015, most measures of underlying inflation trended higher in the opening months of 2016, moving closer to the upper limit of the inflation target range of 3–6 per cent. Subtracting the impact of food, non-alcoholic beverages and petrol prices from the calculation of headline consumer price inflation, the resultant underlying measure of inflation accelerated from 5,5 per cent in November 2015 to 5,9 per cent in February 2016, before slowing to 5,8 per cent in both March and April. When excluding electricity prices as well, underlying inflation quickened from 5,1 per cent in November 2015 to 5,7 per cent in February 2015. Subsequently, this measure of underlying inflation decelerated to 5,5 per cent in April 2016, reflecting the moderation in services price inflation in recent months.

Headline and underlying measures of consumer price inflation



After accelerating in the opening months of 2016, an analysis of price changes based on the classification of individual consumption by purpose (COICOP) categories suggests ongoing inflationary pressures in April 2016. During this month, consumer price inflation accelerated in five of the twelve COICOP categories and moderated in four categories, while remaining unchanged in three categories. The twelve-month rates of increase in five of the COICOP categories exceeded 6 per cent in April 2016, while five categories recorded price increases within the inflation target range and two categories registered rates of change below the lower limit of

3 per cent. The accompanying table shows that the food and non-alcoholic beverages category recorded the highest rate of change in the year to April 2016, followed by the miscellaneous goods and services category. By contrast, the communication category recorded the lowest rate of change in the opening months of 2016.

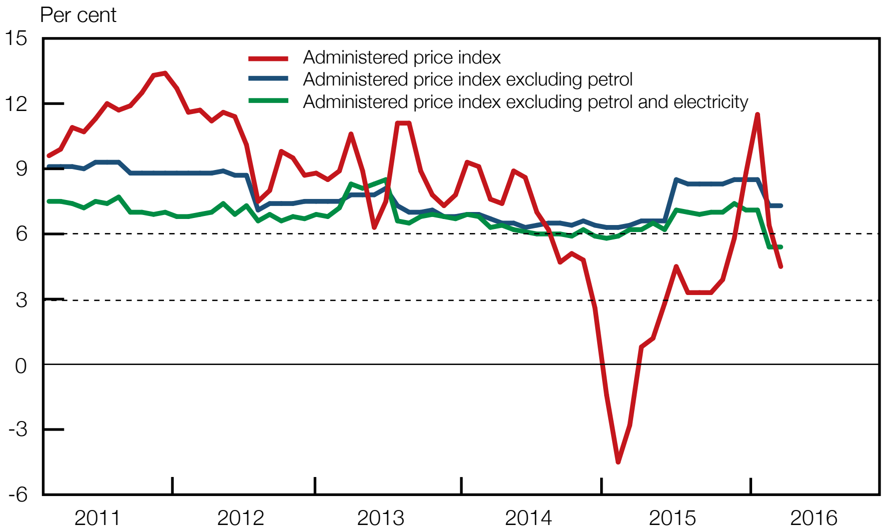
Headline consumer price inflation in COICOP categories

Percentage change over twelve months

	Weights	2016		
		Feb	Mar	Apr
Food and non-alcoholic beverages	15,41	8,6	9,5	11,0
Miscellaneous goods and services	14,72	6,8	6,7	7,1
Housing and utilities	24,52	6,6	6,4	6,5
Recreation and culture	4,09	6,0	6,2	6,3
Health	1,46	5,5	6,6	6,2
Alcoholic beverages and tobacco	5,43	7,6	6,2	5,9
Restaurants and hotels	3,50	6,3	5,9	5,7
Clothing and footwear	4,07	4,6	4,8	4,9
Education	2,95	9,3	4,6	4,6
Household content and services	4,79	3,5	3,8	3,8
Transport	16,43	8,7	4,5	2,7
Communication	2,63	0,2	0,1	0,1
All items headline consumer price index	100,00	7,0	6,3	6,2

Although recent outcomes of administered prices continued to be driven largely by changes in domestic petrol prices, education prices also impacted administered price inflation notably in March and April 2016. Consequently, following a marked acceleration in petrol price inflation to 20,7 per cent in February 2016, administered price inflation quickened notably to 11,5 per cent over the same period. However, a subsequent moderation in petrol price inflation to -2,3 per cent in April, coupled with a marked slowdown in education price inflation from 9,3 per cent in February 2016 to 4,7 per cent in April, resulted in administered price inflation slowing to 4,5 per cent in the month.

Administered price inflation



When the effect of petrol prices is excluded from the calculation, administered price inflation moderated from 8,5 per cent in January and February 2016 to 7,3 per cent in March and April. When further excluding electricity prices from the calculation, the rate of increase moderated from 7,1 per cent in February 2016 to 5,4 per cent in March and April, reflecting the sharp moderation in education price inflation after tertiary education fees were kept unchanged from a year earlier.

Average headline consumer price inflation expectations for 2016 and 2017 remained unchanged at 6,2 per cent in the first quarter of 2016 compared to the fourth quarter of 2015. However, the average obscures meaningful differences among the constituent groups polled in the survey. Whereas analysts revised their inflation forecasts significantly upwards, business people and trade union officials somewhat surprisingly lowered their average forecasts for both years since the previous survey. This was the first time since the first quarter of 2014 (when respondents had to provide forecasts for 2016 for the first time) that the average inflation expectations of analysts for 2016 and 2017 were higher than those of business people and trade unions. While analysts adjusted their average expectations for 2016 upwards from 5,4 per cent in the first quarter of 2014 to 6,5 per cent in the first quarter of 2016, those of business people remained unchanged at 6,2 per cent, and those of trade unions declined from 6,1 per cent to 5,8 per cent over the two-year period. The BER noted that, among other factors, the notable moderation in the historical consumer price inflation rate (from 6,1 per cent in 2014 to 4,6 per cent in 2015) provided to respondents in the questionnaire may have influenced business people and trade union officials to lower their responses in the first quarter of 2016. Encouragingly, average household inflation expectations for the next twelve months receded from 6,9 per cent in the fourth quarter of 2015 to 6,4 per cent in the first quarter of 2016.

Headline consumer price inflation expectations

Per cent, as surveyed in the first quarter of 2016

Average inflation expected for:	Financial analysts	Business representatives	Trade union representatives	All surveyed participants
2016	6,5	6,2	5,8	6,2
2017	6,4	6,3	5,9	6,2
2018	5,7	6,2	5,9	6,0
The next five years	5,7	6,4	6,1	6,1

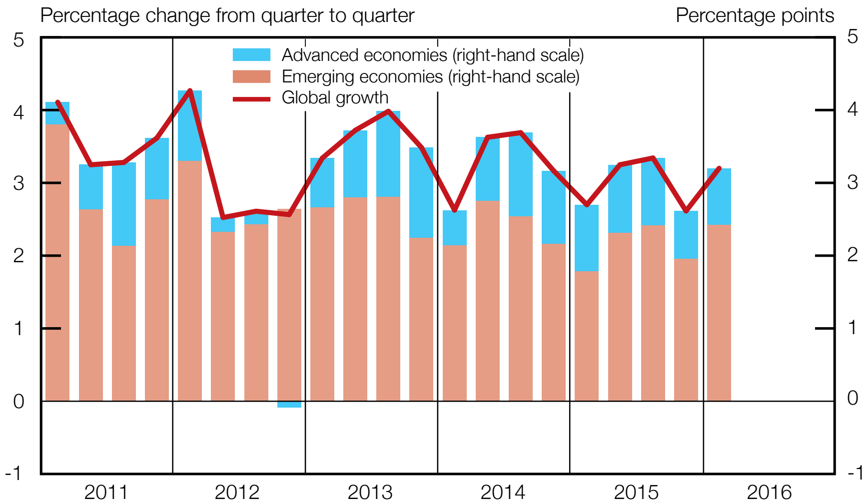
Source: Bureau for Economic Research, Stellenbosch University

Foreign trade and payments

International economic developments

Global economic growth accelerated somewhat to an annualised rate of 3,2 per cent in the first quarter of 2016, reflecting better growth in both advanced and emerging-market economies. Real output growth in advanced economies picked up marginally to 1,6 per cent in the first quarter of 2016, mainly due to improved economic performances in Australia, the euro area and Japan. Meanwhile, output growth in emerging-market economies accelerated to 4,7 per cent in the first quarter of 2016. Economic growth picked up in India and Mexico, and turned positive in Russia.

Global growth and contributions from advanced and emerging-market economies



Seasonally adjusted annualised rates

Sources: Bloomberg, Haver Analytics, JPMorgan, national statistical offices and staff calculations

In its April 2016 *World Economic Outlook*, the International Monetary Fund (IMF) lowered its 2016 global growth forecast by 0,2 percentage points to 3,2 per cent. The largest downward revisions of growth projections were in Japan, Nigeria and Russia. The outlook for the Japanese economy deteriorated due to the appreciation of the yen in recent months and weaker demand from emerging-market economies. The sharp decline in oil prices in early 2016 has adversely affected the growth outlook for Nigeria and Russia.

Real output growth in the US slowed markedly to 0,8 per cent in the first quarter of 2016 from 1,4 per cent in the fourth quarter of 2015. The deterioration in economic momentum could largely be attributed to negative contributions from non-residential fixed investment, net exports and federal government spending. Meanwhile, twelve-month US consumer price inflation decelerated from 1,4 per cent in January 2016 to 1,1 per cent in April, mainly due to lower energy prices. The deflator for personal consumption expenditure, the US Federal Reserve's preferred inflation measure, decelerated from 1,3 per cent to 0,8 per cent over the same period. The Federal Open Market Committee (FOMC) maintained its accommodative policy stance and left the federal funds rate unchanged throughout the first five months of 2016. However, recent FOMC communications have emphasised the underlying health of the US economy and the likely appropriateness of a higher federal funds rate in the near future.

Following a decline in the fourth quarter of 2015, real output in Japan expanded by 1,9 per cent in the first quarter of 2016. The better-than-expected pace of growth was mainly due to a rebound in consumer spending. In order to revive economic activity and consumer price inflation, the Bank of Japan maintained its quantitative and qualitative monetary easing measures at its April 2016 policy meeting.

Real growth in selected advanced economies

Percentage change at seasonally adjusted annualised rates

	2014				2015					2016
Country/region	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
United States................	4,6	4,3	2,1	2,4	0,6	3,9	2,0	1,4	2,4	0,8
Japan...........................	-7,9	-2,7	2,1	0,0	5,2	-1,7	1,7	-1,8	0,6	1,9
Euro area.......................	0,4	1,2	1,5	0,9	2,2	1,5	1,3	1,7	1,7	2,2
United Kingdom	3,2	2,6	2,7	2,9	1,8	2,4	1,8	2,4	2,3	1,6
Canada	3,7	2,1	3,4	2,5	-1,0	-0,5	2,2	0,5	1,1	2,4
Australia	2,0	1,8	2,0	2,7	3,4	1,1	4,1	3,0	2,5	4,3
New Zealand................	3,6	3,8	3,5	3,0	1,1	1,3	3,5	3,5	3,4	<u>1,9</u>
Advanced economies...	**1,8**	**2,3**	**2,0**	**1,8**	**1,9**	**1,9**	**1,9**	**1,3**	**2,0**	**<u>1,6</u>**

Underlined numbers indicate projections. Some regional totals include countries with forecasted data.

Sources: Bloomberg, national statistical offices and staff calculations

In the euro area, real economic growth accelerated to 2,2 per cent in the first quarter of 2016, up from 1,7 per cent in the previous quarter, underpinned by household consumption expenditure and gross fixed capital formation. Meanwhile, euro area consumer inflation remained negative, reaching -0,1 per cent in May 2016 following the sharp decline in energy prices. The European Central Bank (ECB) expects inflation to pick up in the second half of 2016 due to base effects. In March 2016 the ECB lowered several key policy rates and expanded its bond-buying programme from €60 billion a month to €80 billion to stimulate economic growth and address deflation risks. However, the ECB decided to keep its key interest rates unchanged at its April and June meetings.

Real economic growth in the United Kingdom (UK) decelerated from 2,4 per cent in the fourth quarter of 2015 to 1,6 per cent in the first quarter of 2016. In addition, the possibility of the UK leaving the European Union (often referred to as 'Brexit') has fuelled concerns about the potentially negative effects on UK and global growth. Consumer price inflation decelerated to 0,3 per cent in April 2016 – well below the Bank of England's inflation target of 2,0 per cent – mainly due to the sharp decline in commodity prices and the past appreciation of the British pound. This has prompted the authorities to maintain the bank rate at 0,5 per cent.

The pace of economic growth in emerging Asia accelerated to 6,7 per cent in the first quarter of 2016, reflecting uneven growth outcomes in individual countries in the region. Real output growth in China slipped to 6,3 per cent in the first quarter – the lowest in the post-global financial crisis period. China has adopted a policy of economic rebalancing to reduce its reliance on investment-led and export-driven growth in favour of higher domestic consumption. However, the challenge is to implement the process gradually without destabilising economic growth. Consumer price inflation in China accelerated from 1,3 per cent in October 2015 to 2,0 per cent in May 2016.

Real output growth in India accelerated significantly to 9,6 per cent in the first quarter of 2016. While still robust, economic growth in Indonesia moderated from 5,8 per cent in the fourth quarter of 2015 to 3,9 per cent in the first quarter of 2016. India's inflation accelerated from 3,7 per cent in August 2015 to 5,7 per cent in January 2016, before moderating to 5,4 per cent in April. Inflation in Indonesia decelerated from 8,4 per cent in December 2014 to 3,3 per cent in May 2016. The Reserve Bank of India lowered its policy rate by 25 basis points to 6,50 per cent in April 2016, while Indonesia kept its policy rate unchanged at 6,75 per cent following a cumulative 75 basis point decrease over the first quarter of 2016.

Real growth in selected emerging-market economies

Percentage change at seasonally adjusted annualised rates

	2014				2015					2016
Country/area	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
China	7,5	7,6	6,8	7,3	6,4	7,2	6,9	6,5	6,9	6,3
India	10,3	8,3	3,3	7,2	7,0	10,4	7,9	4,8	7,5	9,6
Indonesia	5,2	5,0	4,8	5,0	4,1	4,8	5,2	5,8	4,8	3,9
Emerging Asia	**7,8**	**7,2**	**5,7**	**6,8**	**6,1**	**7,6**	**6,8**	**5,9**	**6,6**	**6,7**
Russia	3,3	-1,8	-1,1	0,7	-10,1	-4,1	0,4	-1,6	-3,7	1,1
Turkey	-0,3	1,3	5,5	3,0	4,4	5,1	4,5	4,9	4,0	3,1
Poland	4,1	2,4	2,8	3,3	5,3	2,0	3,2	5,3	3,6	-0,4
Emerging Europe	**2,4**	**0,2**	**1,4**	**1,8**	**-2,9**	**-0,6**	**2,2**	**1,5**	**-0,1**	**1,5**
Brazil	-4,9	-0,1	0,9	0,1	-4,5	-7,7	-6,2	-5,2	-3,8	-1,1
Mexico	3,4	2,0	2,9	2,2	1,8	2,5	3,2	2,2	2,5	3,3
Argentina	3,1	1,2	1,5	0,4	2,8	2,0	4,5	-5,6	2,0	-6,0
Latin America	**0,1**	**1,6**	**1,7**	**1,2**	**-0,8**	**-2,1**	**-0,5**	**-1,8**	**-0,1**	**-0,4**
Emerging economies	**5,5**	**5,0**	**4,3**	**4,6**	**3,5**	**4,5**	**4,7**	**3,8**	**4,0**	**4,7**

Underlined numbers indicate projections. Some regional totals include countries with forecasted data.
Sources: Bloomberg, Haver Analytics, JPMorgan, national statistical offices and staff calculations

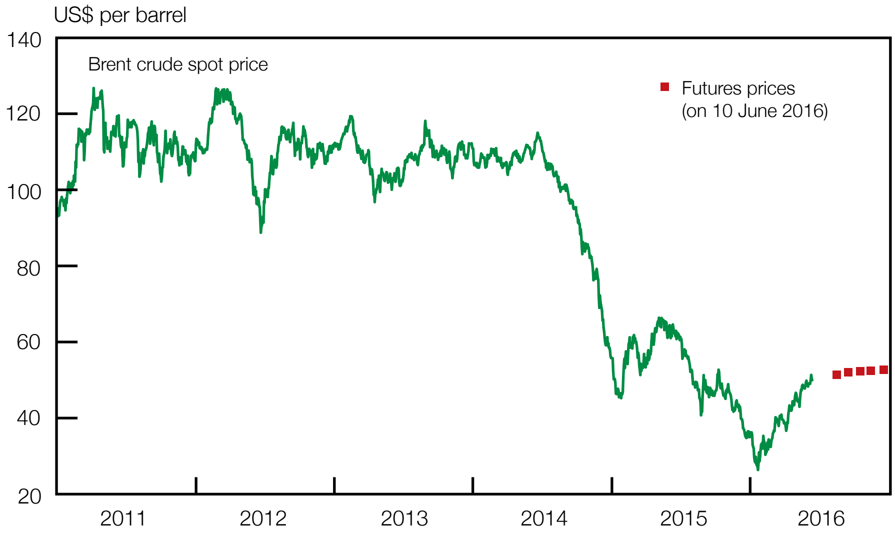
Real output growth in emerging Europe remained lacklustre at 1,5 per cent in the first quarter of 2016, mainly due to subdued growth in Russia and activity contracting in Poland and Hungary. Sluggish demand in emerging Europe has largely supressed inflationary pressures in the region. Consumer price inflation in Russia decelerated markedly from 16,9 per cent in March 2015 to 7,3 per cent in May 2016. Inflation in Turkey slowed notably from 9,6 per cent in January 2016 to 6,6 per cent in May, while the deflationary trend in Poland deepened as consumer prices declined by 1,1 per cent in April. Policy rates were kept unchanged in recent months in Russia, Turkey and Poland.

Real output in the Latin American region has contracted for five consecutive quarters, with its rate of growth reaching -0,4 per cent in the first quarter of 2016. Brazil and Venezuela remain in deep recessions and preliminary indicators suggest Argentina entered a technical recession in the first quarter of 2016. Inflation has moderated recently in most countries in the region due to low oil prices and policy tightening. The central banks of Colombia, Mexico and Peru have tightened policy rates since the beginning of the year.

According to the CPB Netherlands Bureau for Economic Policy Analysis, world trade volumes (as measured by the three-month moving average of world exports) declined by 6,0 per cent in March 2016. This decrease in world trade volumes was due to export volumes contracting sharply by 8,1 per cent in emerging-market economies (especially central and eastern Europe) and by 4,0 per cent in advanced economies.

The price of Brent crude oil recovered from US$27 per barrel in mid-January 2016 to levels just above US$50 per barrel in early June. The increase in crude oil prices resulted from falling US oil production, supply disruptions and US dollar depreciation. However, this recent recovery in the oil price is likely to be moderated by an impending further increase in Iran's output as well as an expected increase in Saudi Arabia's production. Brent crude oil futures prices for delivery in the fourth quarter of 2016 traded at around US$53 per barrel in early June.

International crude oil prices



Source: Bloomberg

Current account[6]

Higher international prices of certain commodities produced by South Africa and a more depreciated exchange rate of the rand gave rise to an increase in the value of merchandise exports in the first quarter of 2016. Over the same period, the value of merchandise imports advanced at a slower pace as an increase in the value of imported capital and intermediate goods was partly offset by lower imports of consumer goods. The country's trade deficit accordingly narrowed to R38 billion in the first quarter of 2016 from R41 billion in the fourth quarter of 2015. The shortfall on the services, income and current transfer account, however, widened over the period due to an increase in net income payments to the rest of the world.

6 Unless stated to the contrary, the current-account transaction flows referred to in this section are all seasonally adjusted and annualised.

Balance of payments on current account

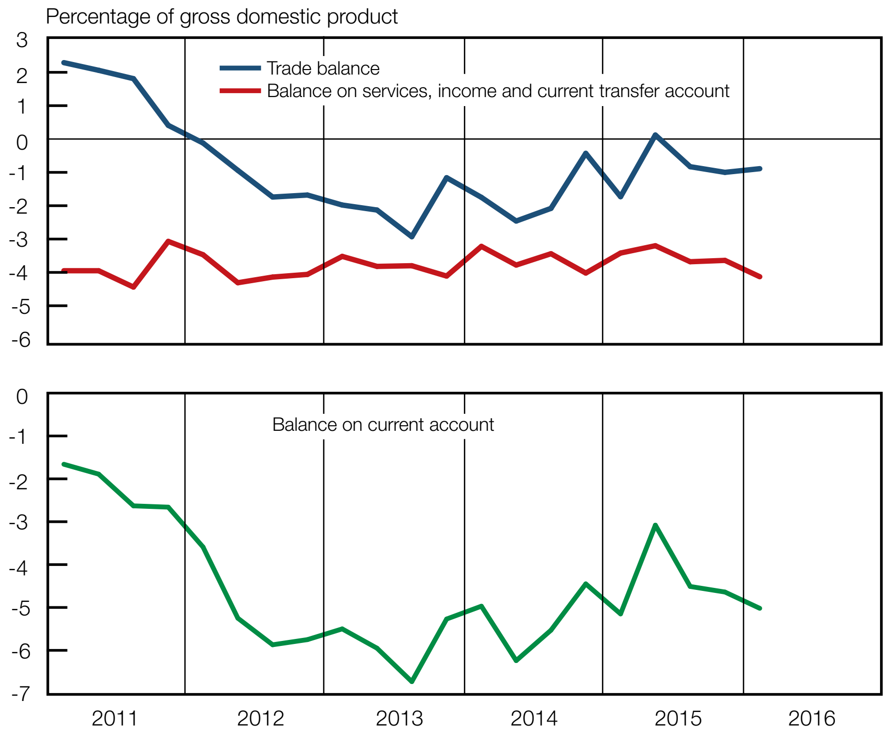
R billions, seasonally adjusted and annualised

	2015					2016
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Merchandise exports	940	984	984	988	974	995
Net gold exports	63	71	65	72	68	78
Merchandise imports	-1 070	-1 050	-1 082	-1 101	-1 076	-1 110
Trade balance	**-68**	**5**	**-34**	**-41**	**-34**	**-38**
Net service, income and current transfer payments	-134	-128	-148	-150	-140	-174
Balance on current account	**-202**	**-123**	**-182**	**-191**	**-174**	**-211**
As percentage of gross domestic product	*-5,1*	*-3,1*	*-4,5*	*-4,6*	*-4,3*	*-5,0*

Components may not add up to totals due to rounding

Owing largely to the widening deficit on the services, income and current transfer account, the deficit on the current account of the balance of payments deteriorated from 4,6 per cent of GDP in the fourth quarter of 2015 to 5,0 per cent of GDP in the first quarter of 2016.

Balance of payments: current account

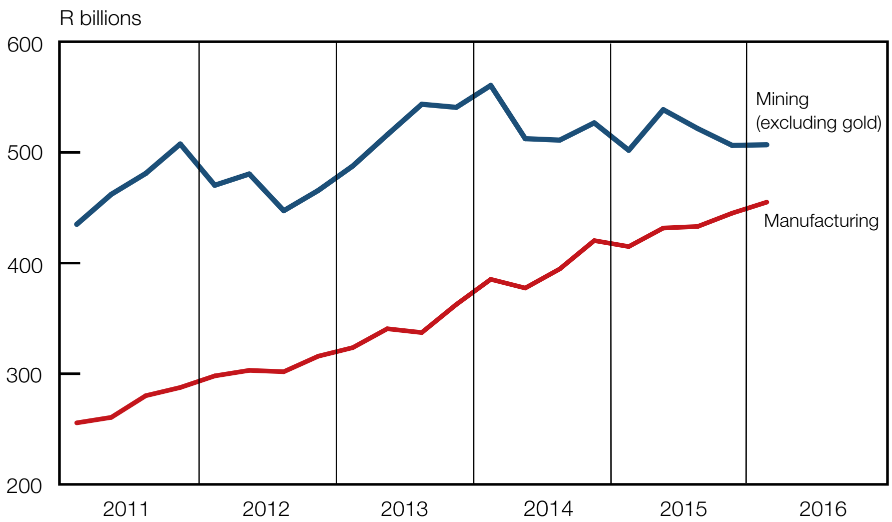


Seasonally adjusted and annualised

The value of merchandise exports advanced by 0,7 per cent in the first quarter of 2016, following an increase of 0,4 per cent in the fourth quarter of 2015. An increase was registered in the value of manufactured exports, while the value of mining exports remained broadly unchanged over the period. Notably higher export proceeds were registered for base metals and articles of base metals benefiting from increased foreign demand for locally produced ferrochrome and for diamonds. These were, however, fully matched by a contraction in the export value of platinum group metals and mineral products, particularly coal. The decline in the export value of platinum group metals in the first quarter of 2016 partly reflected lower production levels following safety stoppages at a platinum refinery, while the decrease in the value of coal exports emanated from a drop in demand from especially Italy and Turkey.

A significant increase in the export value of machinery and electrical equipment was the main contributor to a rise in the export value of manufactured goods in the first quarter of 2016. The increase was mainly buoyed by the rising value of catalytic converter exports. At the same time, the value of agricultural exports increased somewhat, reflecting a muted increase in the value of exported vegetable products.

Value of South Africa's merchandise exports

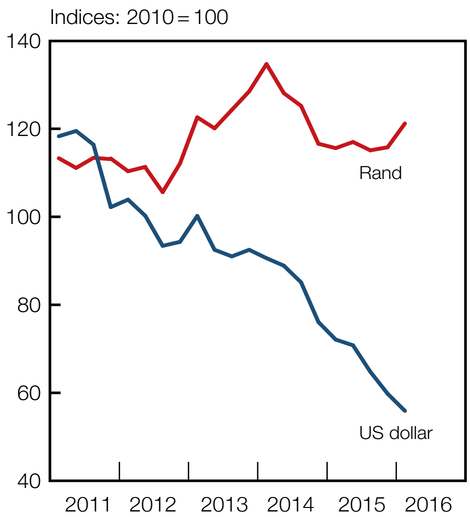


Seasonally adjusted and annualised

Sources: South African Reserve Bank and *CPB World Trade Monitor*

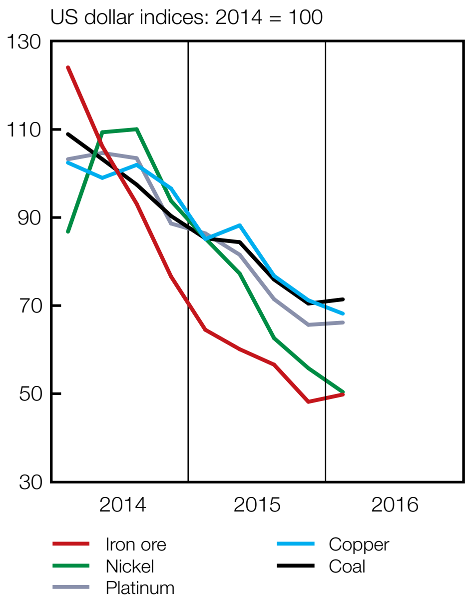
The international prices of certain South African-produced commodities such as platinum, coal and iron ore recovered somewhat in the first quarter of 2016. The increase in the price of iron ore was largely driven by the strengthening in the manufacturing and construction sectors in China over the period. By contrast, the average quarterly international price of copper and nickel declined in the first quarter of 2016. The fall in the price of nickel continued with the commodity reaching its lowest level since 2003, suppressed by weak demand and the easing of the ban on nickel exports from Indonesia. Owing largely to the depreciation in the external value of the rand, the country's non-gold export commodity price index rose, in rand terms, by a firm 4,7 per cent in the first quarter of 2016.

South African-produced export commodity prices*



* Excluding gold

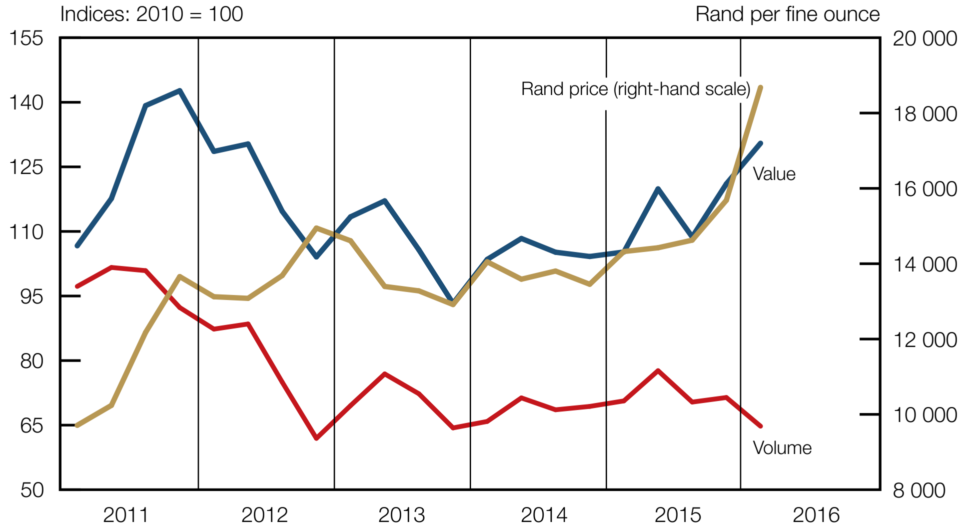
International prices of selected South African export commodities



The rise in the international price of South African produced commodity exports alongside a weaker external value of the rand contributed to an increase of 2,9 per cent in the average rand price of merchandise exports in the first quarter of 2016. Simultaneously, the volume of merchandise exports declined by 2,2 per cent over the period, following a contraction of 1,3 per cent in the final quarter of 2015. As a ratio of real gross domestic product, real merchandise exports declined from 23,9 per cent in the fourth quarter of 2015 to 23,5 per cent in the first quarter of 2016.

The physical quantity of net gold exports contracted by 9,3 per cent in the first quarter of 2016 after having increased by 1,5 per cent in the preceding quarter. The decline in export volumes was, however, more than offset by a rise in the US dollar price of gold alongside the weaker exchange value of the rand. In US dollar terms, the fixing price of gold on the London market rose by 6,8 per cent, from US$1 104 per fine ounce in the fourth quarter of 2015 to US$1 180 per fine ounce in the first quarter of 2016. Owing in part to the depreciation in the external value of the rand, the average realised rand price of gold exports increased by approximately 19 per cent over the period. The value of net gold exports consequently advanced by 7,8 per cent in the first quarter of 2016, following an increase of 11,3 per cent in the fourth quarter of 2015.

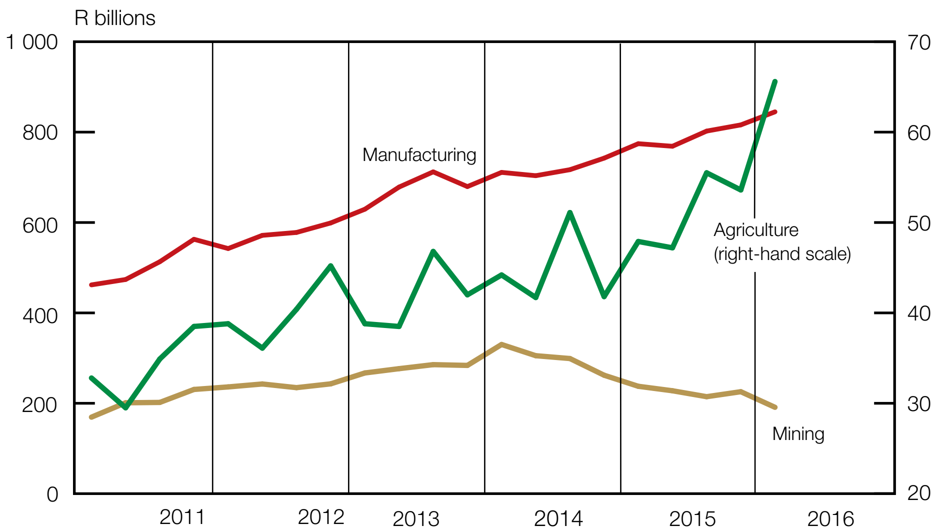
Net gold exports



Seasonally adjusted and annualised

The value of merchandise imports rose by 0,8 per cent in the first quarter of 2016 despite a noticeable decline in the value of mineral imports, in particular that of crude oil. Excluding crude oil imports, the value of merchandise imports advanced by 3,2 per cent in the first quarter of 2016, buoyed by increases in the value of manufactured and agricultural imports. The higher value of manufactured imports could largely be ascribed to a notable increase in the value of vehicles and transport equipment, which included a ship and five aircraft, alongside a surge in the imports of vehicle components. The value of imported machinery and electrical equipment also increased over the period, adding to the rise in the overall value of imported manufactured goods. The prolonged drought conditions resulted in a sharp increase in domestic demand for foreign-produced maize in the first quarter of 2016, with strong increases noted in the importation of maize originating from South America, particularly from Argentina, Brazil, Uruguay and Paraguay. Ultimately, this lifted the total import value of agricultural imports during the quarter.

Value of merchandise imports



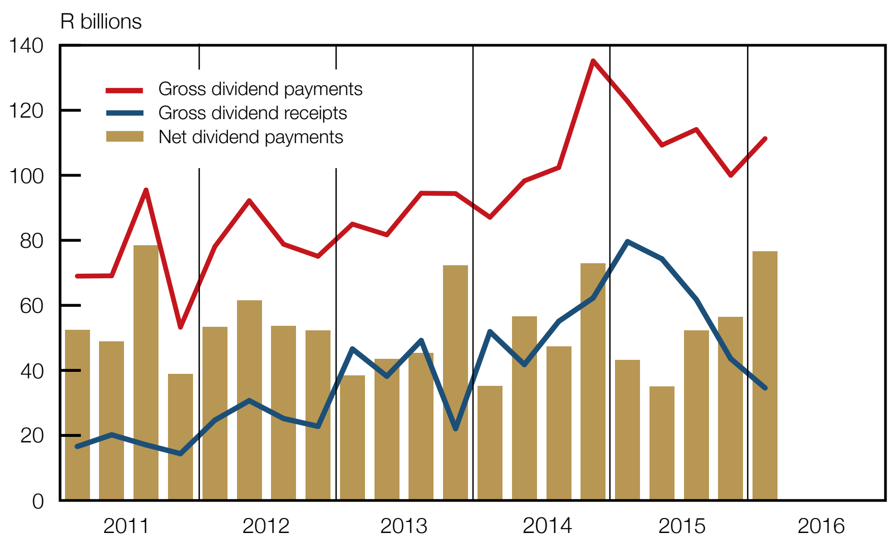
Seasonally adjusted and annualised

Following a rise of 0,7 per cent in the fourth quarter of 2015, the rand price of merchandise imports recovered and recorded a 2,4 per cent increase in the first quarter of 2016. At the same time, the volume of merchandise imports contracted by 1,6 per cent in the first quarter of 2016, largely weighed down by a decrease in the physical quantity of imported mineral products, particularly crude oil. Real merchandise imports as a ratio of real gross domestic expenditure decreased from 26,8 per cent in the fourth quarter of 2015 to 26,4 per cent in the first quarter of 2016.

Having remained broadly unchanged in the second half of 2015, the shortfall on the services, income and current transfer account widened by R24 billion in the first quarter of 2016. Relative to South Africa's GDP, the deficit on the services, income and current transfer account widened from 3,6 per cent in the fourth quarter of 2015 to 4,1 per cent in the first quarter of 2016.

The larger shortfall in the first quarter of 2016 could largely be ascribed to an increase in net dividend payments to the rest of the world: gross dividend receipts from abroad have shrank almost unabatedly since their most recent peak in the first quarter of 2015, while gross dividend payments to non-resident investors rose notably in the first quarter of 2016.

Dividend payments and receipts



Seasonally adjusted and annualised

The widening in the shortfall on the services, income and current transfer account in the first quarter of 2016 was partly countered by a firm increase of about 9 per cent in gross travel receipts. Benefiting from the more competitive exchange rate and easier visa requirements, this category registered its second consecutive quarter of noticeable growth since the lull experienced during the middle quarters of 2015. Net payments in the category 'other services' increased – the higher payments stemmed mainly from accounting services and payments related to intellectual property rendered to South Africa by non-residents.

South Africa's terms of trade improved marginally further in the first quarter of 2016, buoyed by a faster pace of increase in export prices relative to import prices.

Financial account

The net inflow of capital on the financial account of the balance of payments (including reserve assets but excluding unrecorded transactions) shrank from R53,5 billion in the fourth quarter of 2015 to only R27,6 billion in the first quarter of 2016.

Net financial transactions

R billions

	2015					2016
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr
Change in liabilities						
Direct investment	-13,9	6,9	15,9	13,7	22,6	9,9
Portfolio investment	39,3	54,8	11,8	-0,3	105,6	13,5
Financial derivatives	-72,6	-74,3	-71,0	-103,0	-320,9	-148,9
Other investment	39,6	-20,6	6,2	44,6	69,8	2,2
Change in assets						
Direct investment	-11,3	-4,9	-14,7	-37,4	-68,3	-20,5
Portfolio investment	-5,3	-10,0	-24,2	-10,6	-50,1	8,0
Financial derivatives	73,3	70,9	78,3	103,3	325,8	143,6
Other investment	-18,3	-20,0	38,8	48,3	48,8	15,5
Reserve assets	12,3	1,4	0,5	-5,1	9,1	4,2
Total identified financial transactions*	**43,0**	**4,1**	**41,7**	**53,5**	**142,3**	**27,6**
As percentage of gross domestic product	*4,4*	*0,4*	*4,1*	*5,2*	*3,5*	*2,6*

* Including reserve assets but excluding unrecorded transactions

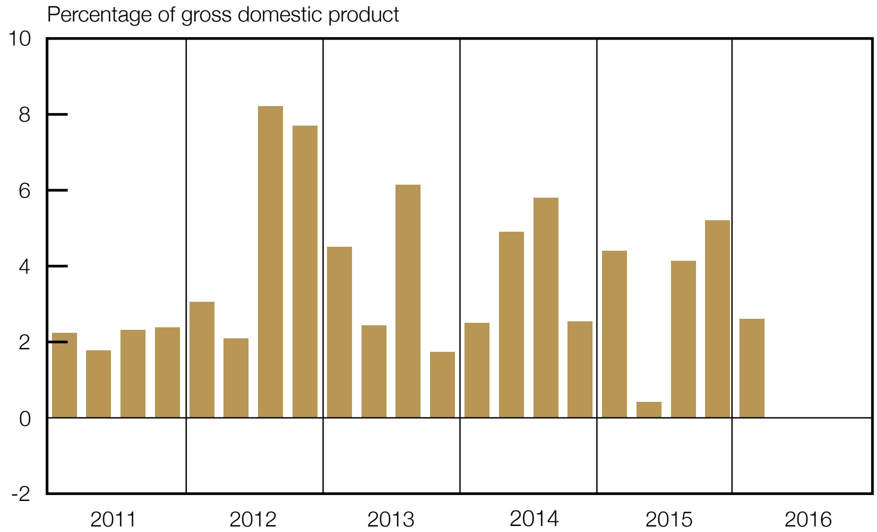
Notwithstanding the expectation that the further tightening of monetary policy in the US would be postponed somewhat amid a moderate improvement in international commodity prices, the risk-averseness among international investors was raised by the lacklustre domestic economic growth and political uncertainty. On a net basis, the categories for portfolio and other investment recorded capital inflows in the first quarter, while the categories for direct investment and financial derivatives registered capital outflows.

Foreign-owned assets in South Africa

In the first quarter of 2016, non-resident investors acquired foreign direct investment assets in South Africa to the value of R9,9 billion compared to an inflow of R13,7 billion in the fourth quarter of 2015. This inflow of capital can be attributed to a further increase in equity holdings over the period as a result of a rights issue taken up by a direct investor.

Inward portfolio investment into South Africa increased notably in the first quarter of 2016, as foreign investors enthusiastically acquired South African marketable debt securities while disposing of equity securities on a limited scale. As a result, portfolio inflows to the value of R13,5 billion were recorded in the first quarter of 2016, compared with an outflow of R0,3 billion in the fourth quarter of 2015. Foreign investors' interest was buoyed by the sharp increase in bond yields in December 2015 which was largely sustained in 2016, adding to the attractiveness of South African bonds when compared with those of other emerging-market economies. The repayment of a US dollar-denominated international bond by a parastatal somewhat countered the inflow recorded under debt securities. The revision of South Africa's sovereign credit rating by major credit rating agencies in the first half of 2016 could have a bearing on non-resident investor appetite for South African portfolio securities; one rating agency reconfirmed its investment grade rating early in May, while the other two rating agencies reconfirmed their investment grade ratings in early June.

Balance on financial account



Following sizeable capital inflows of R44,6 billion in the final quarter of 2015, other investment flows into South Africa recorded an inflow of capital of R2,2 billion in the first quarter of 2016. The net inflow of other investment capital in the first quarter could largely be ascribed to new loans to the private sector and parastatals, which was countered by a decline in non-resident foreign-currency deposits with domestic banks and the repayment of foreign loans by the domestic banking sector.

South African-owned assets abroad

South African companies continued to acquire offshore direct investment assets in the first quarter of 2016, albeit at a slower pace than in the final quarter of 2015. Owing in part to a South African shareholder expanding its equity holding in a foreign private hospital group, outward direct investment flows amounted to R20,5 billion in the first quarter of 2016; this was substantially less compared to the capital outflow of R37,4 billion recorded in the fourth quarter of 2015.

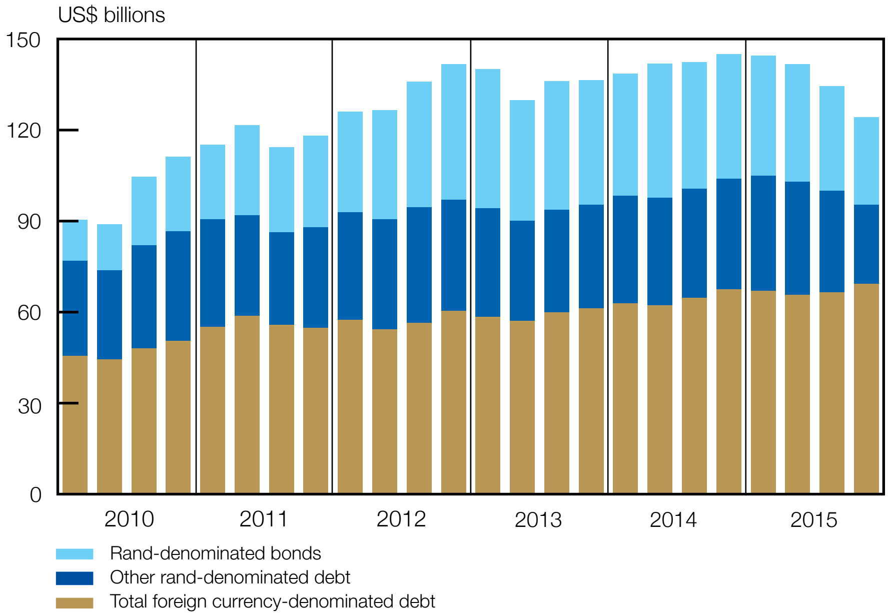
South African entities disposed of outward portfolio assets to an amount of R8,0 billion in the first quarter of 2016, compared with an outflow of R10,6 billion in the fourth quarter of 2015. The disposal of foreign portfolio assets was probably attributable to the lower exchange value of the rand alongside heightened uncertainty characterising foreign stock markets.

Capital flows associated with other outward investment assets moderated to an inflow of R15,5 billion in the first quarter of 2016, compared with an elevated inflow of R48,3 billion in the final quarter of 2015. The repatriation of the domestic banking sector's deposits with foreign banks contributed materially to the inflow of capital recorded over the period.

Foreign debt

South Africa's gross external debt receded from US$134,5 billion at the end of September 2015 to US$124,1 billion at the end of December. This was mainly due to a decline in the dollar value of rand-denominated debt arising from the sharp depreciation of the exchange value of the rand towards the end of 2015. The country's foreign currency-denominated debt increased over the period. Expressed in rand terms, South Africa's gross external debt rose from R1 858 billion at the end of September 2015 to R1 933 billion at the end of December.

External debt of South Africa



The increase in the country's foreign currency-denominated debt from US$66,6 billion at the end of the third quarter of 2015 to US$69,3 billion at the end of the fourth quarter was mainly attributable to a rise in non-resident deposits with South African banks and an increase in short- and long-term loan finance extended to the South African banking sector.

Expressed in US dollar, South Africa's rand-denominated debt decreased markedly from US$67,8 billion at the end of September 2015 to US$54,8 billion at the end of December. The sharp decline in rand-denominated debt primarily reflected the exchange rate and bond-yield-driven reduction in the market value of non-resident investors' domestic bond holdings alongside the exchange of debt instruments for equity obligations by a prominent company in the mining sector. Other factors which contributed to the decline in rand-denominated foreign debt in the fourth quarter of 2015 include substantial repayments of other debt obligations by the monetary and non-monetary private sectors, notwithstanding the lower and more competitive external value of the rand. Relative to the country's total external debt, the ratio of rand-denominated debt contracted significantly from 50,5 per cent at the end of September 2015 to 44,2 per cent at the end of December.

South Africa's external debt as a ratio of annualised gross domestic product declined for a second consecutive quarter, from 40,8 per cent at the end of September 2015 to 39,4 per cent at the end of December, after having risen for eight consecutive quarters prior to September 2015. This decline reduced the ratio to below the average ratio of 40,1 per cent observed over the past eight quarters. The ratio of external debt to annualised export earnings declined from 121,7 per cent at the end of the third quarter of 2015 to 118,9 per cent at the end of the fourth quarter.

South Africa's foreign debt

US$ billions at end of period

	2014		2015			
	3rd qr	4th qr	1st qr	2nd qr	3rd qr	4th qr
Foreign currency-denominated debt	64,7	67,5	67,0	65,7	66,6	69,3
Debt securities	21,9	22,7	23,6	23,9	23,8	23,3
Other	42,8	44,8	43,3	41,8	42,8	46,0
Public sector	8,8	8,2	7,3	7,7	7,8	7,7
Deposit-taking institutions	14,5	18,4	17,7	16,3	16,5	19,9
Non-monetary private sector	19,5	18,2	18,3	17,8	18,5	18,4
Rand-denominated debt	77,6	77,6	77,4	76,0	67,9	54,8
Debt securities	41,6	41,1	39,4	38,8	34,5	28,7
Other	36,0	36,4	38,0	37,2	33,4	26,1
Total foreign debt	142,3	145,1	144,4	141,7	134,5	124,1
As percentage of gross domestic product	*40,2*	*41,3*	*41,3*	*41,4*	*40,8*	*39,4*
As percentage of total export earnings	*121,2*	*123,8*	*124,6*	*123,8*	*121,7*	*118,9*

Box 1 Macroeconomic indicators when second investment-grade credit rating was awarded to South Africa

Many institutional investors require at least two rating agencies' allocation of an investment-grade credit rating to a country's sovereign debt before considering that country's debt instruments for inclusion in the investor's asset portfolio.

South Africa received its second investment-grade rating in February 2000. At that time, Standard and Poor's raised the credit rating on foreign currency-denominated debt of the South African government to investment grade; prior to that, Moody's had already awarded an investment-grade rating to such debt instruments. The accompanying table briefly contrasts macroeconomic conditions during that period with current conditions.

As can be seen from the table, outcomes are mixed. Real economic growth in 1999 was weak in the wake of the Southeast Asian crisis; in 2015 it was even slower, exacerbated by drought and low international commodity prices. Inflation was higher in February 2000 than at present, and the policy interest rate setting of the Bank was notably tighter. The fiscal parameters 16 years ago were healthier than at present, although capital formation by the public sector was much lower. While the shortfall on the current account of the balance of payments was much smaller 16 years ago than at present, strong advances have been made in the area of international liquidity, with a more than six-fold increase in South Africa's gross reserves and a turnaround from a negative international liquidity position to a strong positive one.

Key macroeconomic indicators, February 2000 and June 2016

	Feb 2000	Jun 2016
Real economic growth rate (per cent)	2,4 (1999)	1,3 (2015)
Targeted inflation rate (per cent)	7,2 (Feb)	6,2 (Apr)
Central bank repurchase rate (per cent)	11,75 (Feb)	7,0 (Jun)
National government fiscal balance (percentage of GDP)	-2,7 (1999)	-4,5 (2015)
National government gross debt (percentage of GDP)	46,8 (1999)	46,6 (2015)
Public-sector gross fixed capital formation (percentage of GDP)	4,8 (1999)	7,6 (2015)
Overall gross fixed capital formation (percentage of GDP)	16,1 (1999)	20,6 (2015)
External current-account balance (percentage of GDP)	-0,5 (1999)	-4,3 (2015)
Gross gold and foreign-exchange reserves (US$ billions)	7,4 (Feb)	47,0 (Apr)
International liquidity position of SARB* (US$ billions)	-11,1 (Feb)	41,2 (Apr)

* South African Reserve Bank

International investment position

South Africa's positive net international investment position improved markedly from R109 billion at the end of September 2015 to R714 billion at the end of December due to a much firmer increase in the value of South Africa's foreign assets compared with the increase in the value of foreign liabilities. For the second consecutive quarter, the country's net international investment position benefited from a significant depreciation in the exchange rate of the rand.

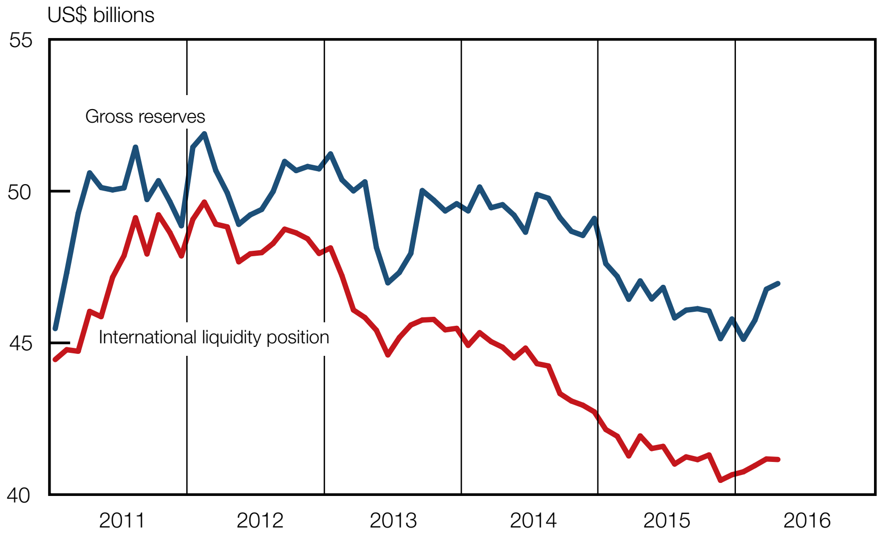
While South Africa's foreign liabilities increased by 12,5 per cent from 31 December 2014 to 31 December 2015, the country's foreign assets increased at a significantly faster rate of 35,2 per cent over the period. The market value of South Africa's foreign assets was boosted in the second half of 2015 by a 21,4 per cent depreciation in the exchange rate of the rand against the US dollar.

As a ratio of South Africa's annualised GDP, the country's foreign liabilities increased from 130,4 per cent at the end of September 2015 to 138,3 per cent at the end of December, while the country's foreign assets soared from 133,2 per cent to 156,1 per cent over the same period. This resulted in the country's positive net international investment position increasing further to 17,8 per cent of GDP at the end of December 2015 compared to 2,8 per cent at the end of September.

International reserves and liquidity

South Africa's international reserves decreased by R4,2 billion in the first quarter of 2016, having increased by R5,1 billion in the fourth quarter of 2015. Measured in US dollars, the value of South Africa's gross gold and other foreign reserves (i.e. the international reserves of the Bank before accounting for reserve-related liabilities) increased from US$45,8 billion at the end of December 2015 to US$46,8 billion at the end of March 2016 as the gold component was revalued on account of the higher gold price. The country's gross reserves increased further to US$47,0 billion at the end of April 2016. The level of import cover (i.e. the value of gross international reserves relative to the value of imports of goods and services, and income payments) decreased marginally from 5,7 months at the end of December 2015 to 5,4 months at the end of March 2016.

International reserves



South Africa's international liquidity position (i.e. the country's gross reserves minus foreign currency deposits received by the Bank, plus the Bank's net forward position) increased from US$40,7 billion at the end of December 2015 to US$41,2 billion at the end of March 2016, and remained at that level at the end of April.

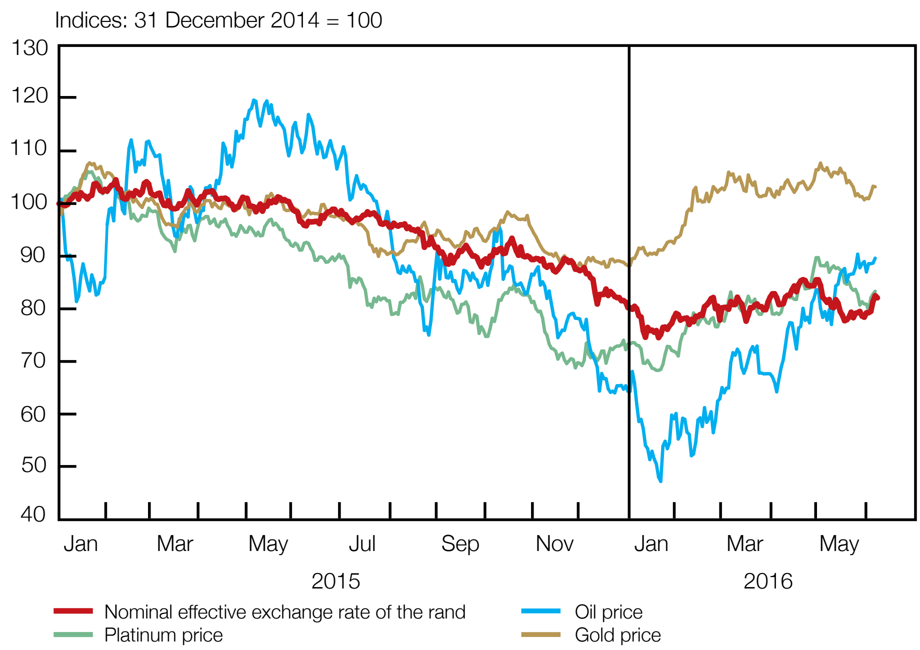
Exchange rates

The average level of the nominal effective exchange rate of the rand was significantly lower in the first quarter of 2016 than in the final quarter of 2015. Nevertheless, on a quarter-end to quarter-end basis, the trade-weighted exchange rate of the rand increased, on balance, by 2,5 per cent in the first quarter of 2016 compared with a decline of no less than 10 per cent in the fourth quarter of 2015. This was the first quarterly appreciation in the nominal effective exchange rate of the rand since the fourth quarter of 2014. While the trade-weighted rand declined somewhat in early January 2016, it subsequently strengthened more forcefully to the end of March 2016. Although the South African rand appreciated against most major currencies over the period, it appreciated notably against the British pound on concerns about Britain's possible exit from the European Union. Other factors that supported the rand during February and March 2016 included:

- the expectation of a more moderate tightening of US interest rates in the medium term;
- the Bank's demonstration of its commitment to maintain price stability;
- a confidence-supporting national budget presented by the Minister of Finance; and
- a recovery in the prices of gold and platinum.

The domestic currency strengthened further in April 2016, supported by a weaker US dollar, better-than-expected domestic retail sales data and positive trade data released by China. However, the exchange value of the rand weakened in May as expectations of an earlier increase in US interest rates were revived and markets became nervous about possible downgrades to South Africa's credit rating. Some of the nervousness was moderated when Moody's reconfirmed its investment-grade-plus-one-notch sovereign debt rating in May, and was followed by the other two major credit rating agencies reconfirming their investment-grade ratings. This contributed to a moderate recovery in the exchange value of the rand.

Exchange rate of the rand and US dollar prices of selected commodities



The real effective exchange rate of the rand declined by 11,9 per cent over the twelve-month period ending March 2016, indicative of improved price competitiveness of South African exporters in international markets amid depressed international demand.

Exchange rates of the rand

Percentage change

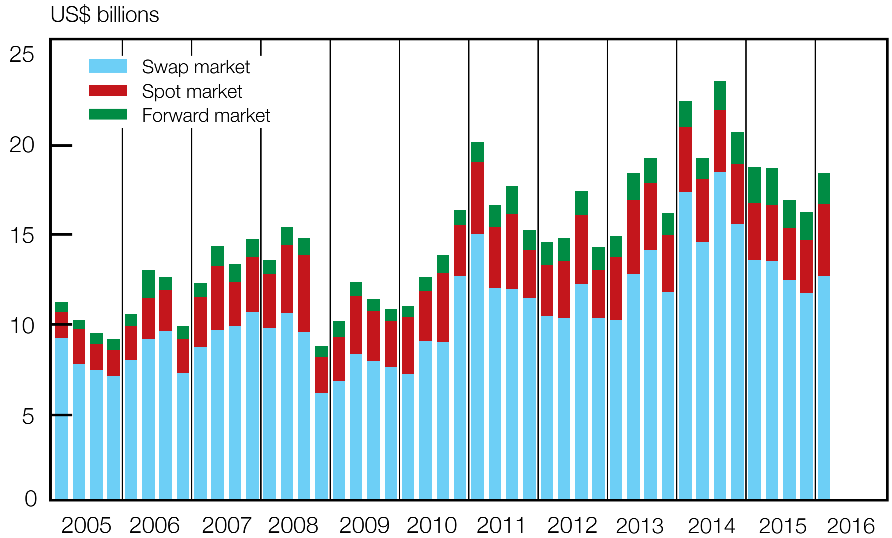
	30 Jun 2015 to 30 Sep 2015	30 Sep 2015 to 31 Dec 2015	31 Dec 2015 to 31 Mar 2016	31 Mar 2016 to 31 May 2016
Weighted average*	-9,0	-10,0	2,5	-4,6
Euro	-11,8	-8,8	0,7	-4,1
US dollar	-11,4	-11,3	4,7	-6,0
Chinese yuan	-9,2	-9,4	4,2	-4,2
British pound	-7,9	-9,5	8,0	-7,4
Japanese yen	-12,9	-11,1	-2,2	-7,2

* Against a basket of 20 currencies

Turnover in the South African foreign-exchange market

The net average daily turnover in the South African market for foreign exchange increased from US$20,1 billion in the fourth quarter of 2015 to US$21,2 billion in the first quarter of 2016. The net average daily turnover in the first quarter of 2016 was 5,4 per cent higher compared with the level recorded in the final quarter of 2015.

Net average daily foreign-exchange turnover against the rand



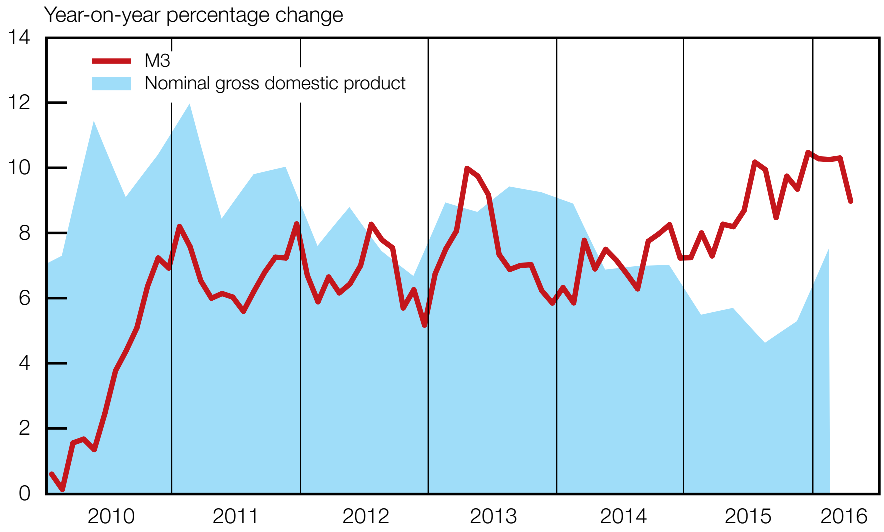
The net average daily turnover in the rand foreign-exchange market increased by 1,9 per cent from US$15,6 billion in the fourth quarter of 2015 to US$15,9 billion in the first quarter of 2016, buoyed mainly by an increase in non-resident participation in the spot and swap markets. This increase coincided with the net purchases of South African securities by non-resident investors during the latter part of the first quarter of 2016.

Monetary developments, interest rates and financial markets

Money supply

Twelve-month growth in the broadly defined money supply (M3) gained some momentum in the second half of 2015 to average 9,7 per cent, a significant break from the average of 7,9 per cent in the first half. It edged even higher to average around 10 per cent from December 2015 to April 2016. This was the first time since the 2009 recession that M3 growth surpassed the 10 per cent mark in a consistent manner. The firm M3 growth in the first four months of 2016 was underpinned by healthy growth in deposits of the household sector and a recovery in deposits of the corporate sector. The latter was partly impacted by equitable share transfers to local government as well as interest payments on government bonds.

M3 and gross domestic product

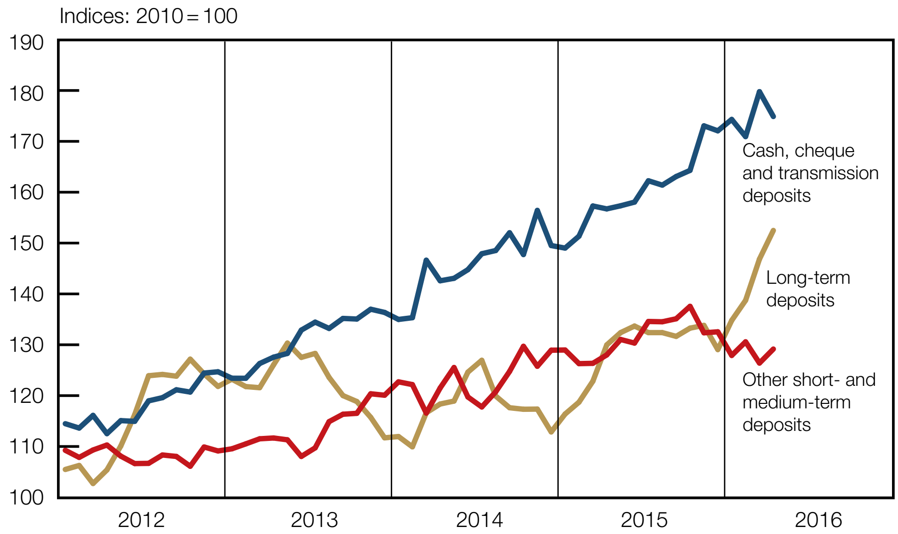


The income velocity of circulation of M3 continued to decline steadily, falling to 1,39 in the first quarter of 2016 from 1,43 in the first quarter of 2015. Although the gap between growth in M3 and that of nominal GDP narrowed in the first quarter of 2016, it still indicates that money supply remains ample in an environment where income is constrained by weak economic growth and low commodity prices. The prolonged divergence between money supply and nominal GDP over the past two years suggests a weakened income-related transactions motive for holding money, but heightened precautionary and speculative motives. At times of elevated financial market volatility, the security of bank deposits becomes attractive. In addition, buoyant turnover in the financial markets implied a strengthening of the transactions motive in the financial circuit. The year-on-year growth in M3 averaged 10,3 per cent in the first quarter of 2016, surpassing the growth of 7,4 per cent in nominal GDP in the same period.

Overall, M3 money supply grew by R90,6 billion in the first quarter of 2016, up from the increase of R86,2 billion recorded over the same period a year earlier. Growth in money supply in the quarter under review was supported by corporate-sector deposits which increased by R77,8 billion on account of a strong rise in the deposit holdings of both financial and non-financial companies. However, measured over twelve months, the rate of increase in the deposit holdings of non-financial companies gradually moderated in early 2016, decelerating to 10,2 per cent in April from 12,6 per cent in January. During this period, corporate deposits were temporarily accumulated in anticipation of dividend payments to shareholders. The disbursements by national government of equitable share transfers to local governments further supported the growth in deposits of the non-financial corporate sector. Growth in the deposit holdings of financial companies initially edged higher, increasing from 6,4 per cent in January 2016 to 8,5 per cent in March, partly as a result of banks trying to attract the deposits of fund managers through offering lucrative investment products, while also benefiting from the seasonal coupon payments on government bonds. In April 2016 growth fell back to 5,1 per cent.

Year-on-year growth in deposits of the household sector displayed some resilience as it averaged around 12,8 per cent in the first quarter of 2016, although this was lower than the average of 13,3 per cent recorded in the fourth quarter of 2015. In April 2016, growth over twelve months in household deposits measured 12,8 per cent. Growth in household-sector deposits remained underpinned by the tightening monetary policy cycle which increased the attractiveness of interest-bearing bank deposits, alongside above-inflation wage increases.

Growth in deposits by maturity



Analysed by maturity, growth in long-term deposits started improving from 2014 when interest rates started to rise. Year-on-year growth in long-term deposits picked up from negative growth of 9,7 per cent in February 2014 to positive growth from November of that year, and has since accelerated to 17,3 per cent in April 2016. This was much higher than the growth of 11,6 per cent recorded by cash, cheque and demand deposits in the latter period. While the demand for the transactional and long-term deposits continued to expand, demand for other short- and medium-term deposits petered out from mid-2015, its twelve-month growth rate declining from 14,3 per cent in July 2015 to negative growth in January 2016, and a small positive 0,9 per cent in April.

Statistical counterparts of change in M3

R billions

	2015			2016
	2nd qr	3rd qr	4th qr	1st qr
Net foreign assets	78,4	48,6	47,5	-23,7
Net claims on the government sector	-3,3	40,9	-13,1	-0,5
Claims on the private sector	23,4	65,7	87,2	78,8
Net other assets and liabilities	-16,9	-85,3	-77,2	36,0
Total change in M3	**81,7**	**69,8**	**44,3**	**90,6**

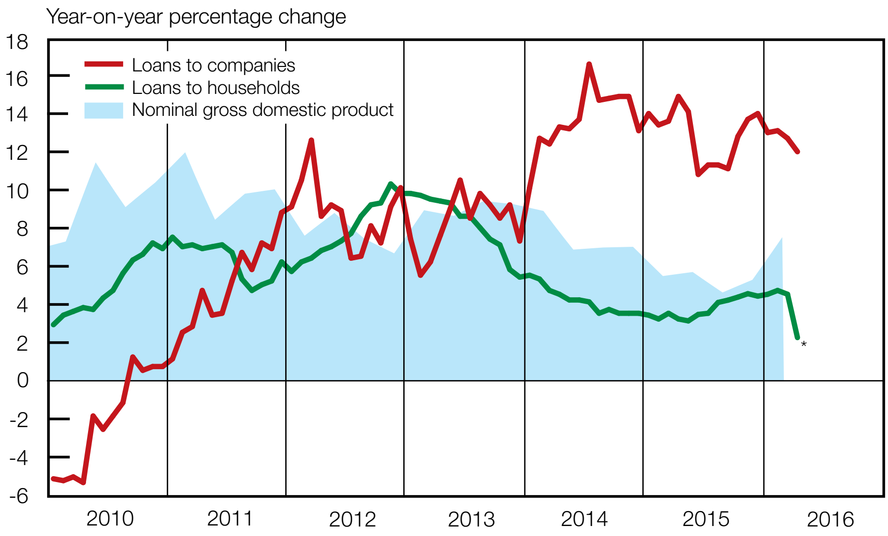
In a statistical analysis of the counterparts to the change in money supply, the growth in M3 during the first quarter of 2016 was supported, as is typically the case, by growth in claims on the private sector, mostly representing increased loans and advances to the corporate sector. Negative net foreign assets moderated the increase in M3 as the improvement in the exchange value of the rand since the start of the year contributed to a decline in the valuation of the gold and foreign-exchange reserves of the Bank, and in foreign-issued derivatives held by the monetary sector. This resulted in the foreign assets of the monetary sector declining by more than their foreign liabilities. Part of the exchange rate revaluation effect was balanced by a rise in the net other assets of the monetary sector. On a net basis, claims against the government sector remained mostly unchanged during the period under review.

Credit extension

The year-on-year growth in bank credit extended to the private sector has been sticky around the 8 per cent level since 2012; however, it surpassed that level slightly in the first three months of 2016. Beneath the stable and benign growth trend in overall credit extension, there has been a marked divergence in credit uptake between households and companies. Credit extension to the household sector has remained weak and negative in real terms, whereas corporates have elevated demand. Weak economic growth, rising interest rates, surging food prices, higher electricity tariffs, high unemployment and stricter credit regulations are some of the factors that have added to the financial strain of the household sector.

By contrast, notwithstanding the challenging economic environment, the corporate sector's demand for bank credit has been resilient, growing at a year-on-year rate of around 13 per cent for the past two years. While benchmark interest rates have been increased by a cumulative 200 basis points since 2014, lending rates remain well below the highs experienced in 2008. Nevertheless, the rising debt-service cost has added pressure on both households and corporates exposed to high debt levels in the weak economic growth environment.

Bank loans and gross domestic product



* Latest values influenced by technical correction; see footnote on next page.

With the growth in nominal GDP trending lower and that of total loans and advances fluctuating sideways, the credit-to-GDP ratio rose during 2015 and the first quarter of 2016. Despite a slight recovery in consumer optimism in the first quarter of 2016, consumer confidence remained weak, pointing to a low willingness of consumers to spend or utilise credit. While business confidence continued to decline in the first quarter of 2016, bringing it to its lowest level in five years mainly due to weak real output, poor domestic sales volumes and suppressed profitability, corporate credit demand held up well. This illustrated how credit growth is shaped not only by current business conditions but also by longer-term projects decided on previously that are in progress, new projects discounting future conditions and, in general, volatility in cash flows prompting a recourse to credit.

Total loans and advances increased by R94,3 billion in the first quarter of 2016, slightly less than the R97,6 billion recorded in the same period in 2015. The corporate sector remained the dominant driver behind the increase in credit demand, albeit at a marginally slower rate when compared to the same period a year ago. Credit demand by the household sector edged somewhat higher in the first three months of 2016 as households' utilisation of bank credit in almost all credit categories increased when compared to the same period a year earlier. Nonetheless, the quarter-to-quarter seasonally adjusted and annualised growth rate in total loans and advances to the private sector declined from 11,2 per cent in the fourth quarter of 2015 to 8,0 per cent in the first quarter of 2016.

Other loans and advances, consisting of general loans, bank overdrafts and credit card advances, maintained the role of dominant driver of credit extension during the first quarter of 2016. The twelve-month growth in other loans and advances accelerated from 9,8 per cent in June 2015 to 13,5 per cent in December before moderating to 9,2 per cent in April 2016. The expansion in the *asset-backed credit* categories trended sideways during the first quarter of 2016, having fluctuated around the 5 per cent level since 2014, mostly due to disparate growth in mortgage advances and instalment sale finance. Growth in mortgage advances firmed during this period, while declining growth in instalment sale credit and leasing finance suppressed the overall expansion in asset-backed credit.

In the early months of 2016, consumer appetite for bank credit edged higher through increased demand for *general loans* and *bank overdrafts*. After reaching a lower turning point of close to 0 per cent in July 2014, twelve-month growth in general loans to the household sector gradually increased to 7,5 per cent in March 2016. However, despite the improvement, general loans to households were still growing at single-digit rates, well below the growth rates in excess of 30 per cent recorded in 2011 and 2012. In April 2016, year-on-year growth in general loans to households contracted by 6,2 per cent, predominantly due to a technical correction[7] in the data. Changes to the maximum prescribed interest rates on consumer loans, regulated by the Department of Trade and Industry, became effective on 6 May 2016 and may place a damper on the supply of credit.

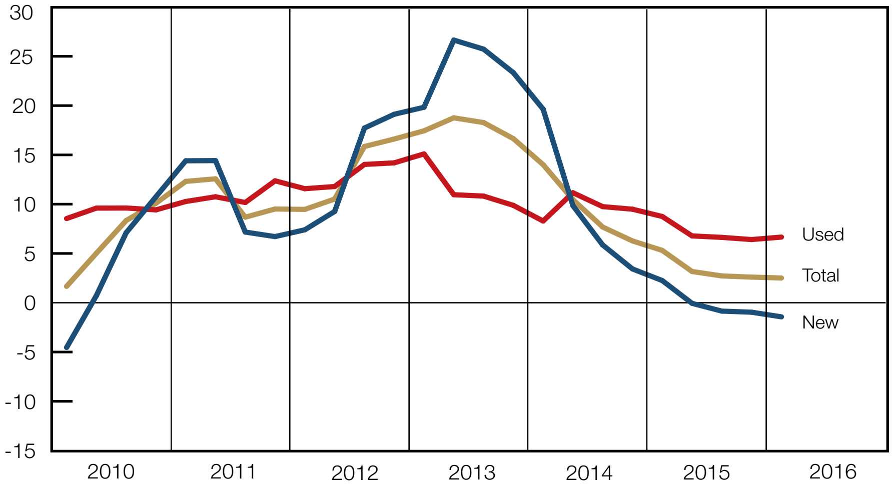
Mortgage advances recorded somewhat firmer increases in the first months of 2016, extending the acceleration recorded in 2015. Twelve-month growth in mortgage advances firmed steadily from around 2 per cent at the end of 2013 to reach 6 per cent in September 2015, and subsequently remained at around that level to April 2016. The pickup in growth of mortgage advances over the past two years has been skewed towards commercial property, with growth in mortgage advances on residential property gaining pace at a more subdued rate.

The rate of expansion in *instalment sale credit and leasing finance*, which mainly represents the financing of new and second-hand vehicles, has been slowing rapidly over the past two years, with growth declining into single-digit territory from the second half of 2014. Growth over twelve months plummeted from a high of 14,2 per cent in October 2013 to only 2,6 per cent in April 2016 due to the persistent slowdown in sales of especially new vehicles. Instalment sale financing of new passenger vehicles has in fact been growing at negative rates since the second half of 2015, whereas the financing of used passenger vehicles remained positive and fluctuated broadly sideways over the same period. The overall declining growth in vehicle sales is expected to continue over the medium term, given the impact of exchange rate depreciation on domestic vehicle prices and high levels of consumer debt which continue to weigh on demand.

7 In April the newly restructured African Bank was included in the surveys while the old entity, of which the data has been held constant since July 2014, was removed. Due to, among other things, the repayment of loans by clients and the restructuring of selected assets to another entity, the balance sheet of the new bank differs substantially from that of the old entity.

Instalment sale and leasing finance: new versus used passenger vehicles

Year-on-year percentage change

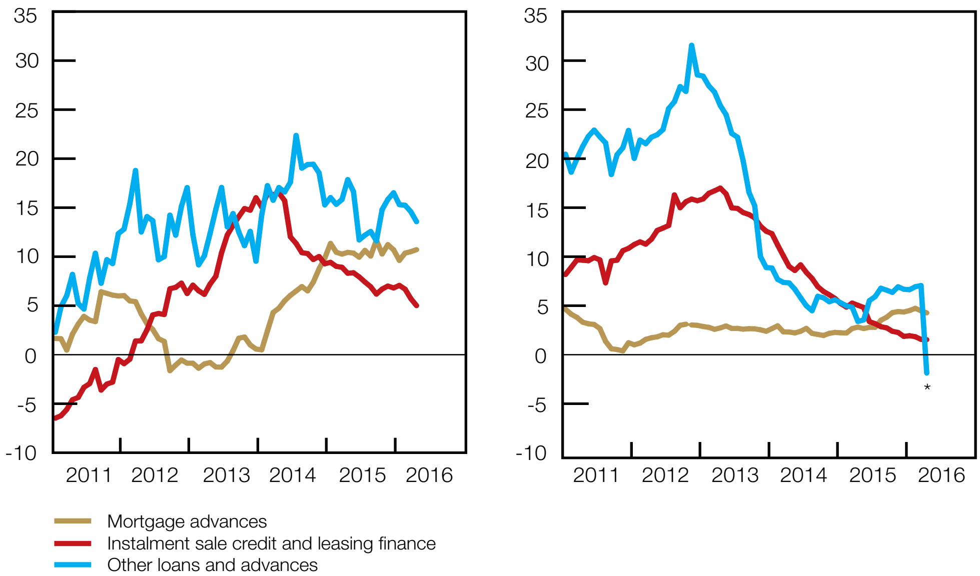


The corporate sector's reliance on bank-intermediated funding moderated somewhat in the first quarter of 2016 when compared with the same period a year earlier. The quarter-on-quarter increase in credit extension to the corporate sector amounted to R73,8 billion in the first quarter of 2016, moderately lower than the R79,5 billion recorded in the first quarter of 2015. Loans and advances to the corporate sector in the first quarter of 2016 were characterised by a moderation in instalment sale credit, whereas mortgage advances and general loans increased moderately.

Bank loans and advances by type

Extended to corporate sector | Extended to household sector

Percentage change over twelve months



* Technical correction in April due to the restructuring of a bank

While credit extension to the household sector remained fragile, it displayed signs of a recovery in 2016 when compared with the same period a year earlier. Households' demand for bank credit increased by R20,6 billion in the first quarter of 2016, up from R18,1 billion recorded a year earlier. The year-on-year growth picked up from 3,2 per cent in May 2015 to 4,6 per cent in March 2016. The pickup in growth was mainly on the back of mortgage advances and general loans, while instalment sale credit retracted. Consumers remained constrained by slow employment and sluggish income growth in a rising inflation and interest rate environment. Due to the technical correction mentioned earlier, growth amounted to 2,3 per cent in April.

The dominant economic sectors utilising credit in the year to March 2016 were the real-estate and the transport and communication sectors, followed by the electricity and manufacturing sectors, as shown in the accompanying table. The expansion of portfolios by listed property funds continued to boost loans to the real-estate sector. Rail and transport companies, together with companies involved in mobile telecommunications and networks also increased their demand for loans, while the electricity sector continued to benefit from the financing of the various phases of the renewable energy projects initiated by government.

Growth in bank credit by economic sector over the year to March 2016

Sector	Percentage change	Percentage of total credit extension
Real estate	42	9,7
Transport, storage and communication	34	3,4
Electricity, gas and water	25	1,6
Manufacturing	20	4,6
Finance and insurance	19	19,0
Agriculture, forestry and fishing	13	2,1
Wholesale and retail trade	12	5,0
Business services	12	3,2
Community, social and personal services	10	8,3
Construction	8	1,0
Mining and quarrying	-4	2,5
Households	-3	34,7
Other	18	4,8
Total	10	100,0

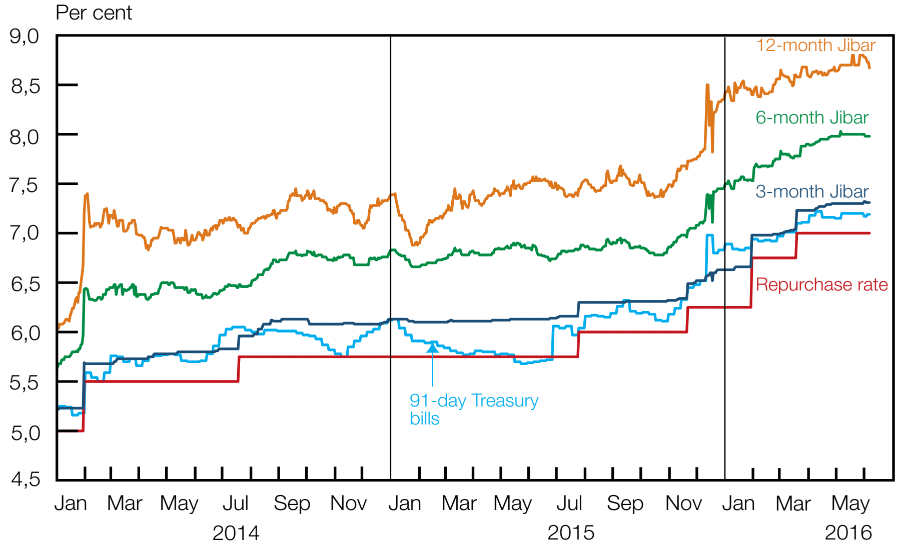
Interest rates and yields

Concerns regarding the upside risks to inflation and the protracted nature of the expected breach of the target led the Monetary Policy Committee (MPC) to increase the repurchase rate by 25 basis points to 7,00 per cent per annum, effective from 18 March 2016. This resulted in a cumulative increase of 75 basis points in the policy rate since the start of the year and an aggregate of 200 basis points since the start of the tightening cycle in early 2014. However, at its meeting in May 2016 the MPC kept the policy rate unchanged, given modest improvements to the inflation outlook, the prospect of fragile domestic economic growth and a challenging global economic environment. The main risk factors to inflation were the exchange rate and the impact of the drought on food prices. While the pass-through from the exchange rate to inflation was still relatively low, there were signs that this may be increasing. For the full March and May MPC statements, see pages 72 to 85 of this *Quarterly Bulletin*.

Money-market rates generally fluctuated higher during the first five months of 2016, mostly extending the rise which started towards the end of 2015 when the exchange value of the rand depreciated markedly. The rising market rates partly pre-empted and partly followed the two successive increases in the policy interest rate in early 2016 as they reflected the build-up in inflation expectations emanating from the weaker rand and the protracted drought experienced in the agricultural sector. Money-market rates levelled out somewhat from late April, alongside better-than-expected inflation outcomes, the appreciation in the exchange value of the rand, and an improvement in global risk sentiment when the US Federal Reserve announced a pause in its path of policy normalisation. The three-month Johannesburg Interbank Average Rate

(Jibar) recorded an increase of 67 basis points from 6,63 per cent at the start of January 2016 to 7,30 per cent on 26 April. The rate then remained relatively stable, amounting to 7,31 per cent on 3 June. The twelve-month Jibar has also been trending higher over the period, increasing from 8,34 per cent on 7 January to 8,78 per cent in the first week of June.

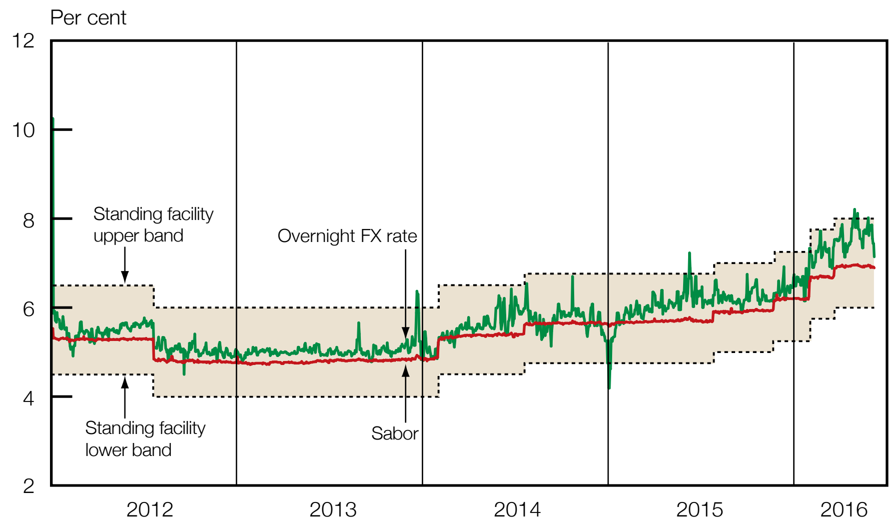
Money-market rates



The tender rate on 91-day Treasury bills increased by 39 basis points from 6,83 per cent on 15 January 2016 to 7,22 per cent on 8 April before declining slightly to 7,19 per cent on 3 June. Overall, this rate had increased by 86 basis points since early November 2015, significantly less than the 100 basis point increase in the repurchase rate over the same period.

Both the South African Benchmark Overnight Rate (Sabor) and the implied rate on one-day rand funding in the foreign-exchange swap market (overnight FX rate) followed the repurchase ratehigher in January and March 2016 and, despite some fluctuations, continued to remain well-anchored within the upper and lower standing facility limits.

Benchmark overnight rates

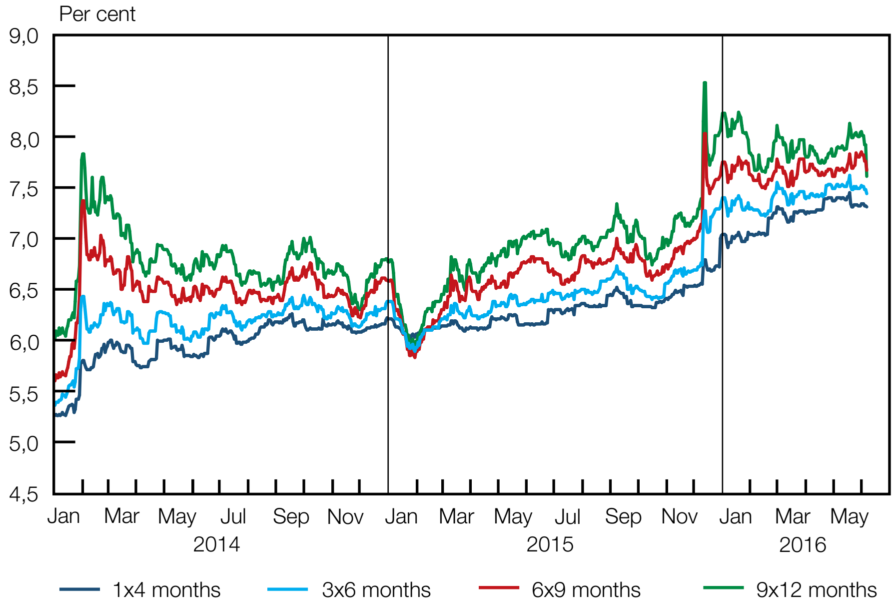


The Sabor increased by 78 basis points from 6,18 per cent on 12 January 2016 to 6,96 per cent on 4 April, while the overnight FX rate increased by a more pronounced 137 basis points from 6,50 per cent to 7,87 per cent over the same period. The overnight FX rate momentarily rose sharply to 8,21 per cent on 28 April 2016 due to a short-lived liquidity shortage in the market. Since the March 2016 MPC meeting, the Sabor has remained relatively stable, fluctuating at around 6,93 per cent, 7 basis points below the prevailing repurchase rate, while the FX rate fluctuated around an average of 7,63 per cent, 63 basis points above the prevailing repurchase rate, largely owing to prefunding requirements of market participants.

Rates on forward rate agreements (FRAs) increased sharply towards the end of 2015 alongside the depreciation of the exchange value of the rand, but started to level out from January 2016. This followed the further tightening of monetary policy, the gradual recovery in the exchange value of the rand, and the improvement in global risk sentiment subsequent to the temporary pause in policy normalisation announced by the US Federal Reserve. Longer-dated FRAs in particular responded positively over the first five months of 2016, probably indicating a moderation in the magnitude by which domestic interest rates were expected to change in coming months.

From a high base, the rate on the 9x12 FRA initially decreased by 59 basis points, from 8,24 per cent on 8 January 2016 to 7,65 per cent on 16 February 2016, when the exchange value of the rand strengthened. A weaker rand saw the rate once again increasing to 8,11 per cent on 29 February after which it trended broadly sideways, despite a further appreciation in the exchange value of the rand. By 3 June the 9x12 FRA stood at 7,92 per cent. The shorter-dated forward rates also trended sideways in recent months, with the 3x6 FRA recording a high of 7,55 per cent on 29 February, with a slight moderation to 7,48 per cent by 3 June. When international rating agencies kept South Africa's investment grade credit status unchanged in early June, forward rates of long-term duration declined sharply.

Forward rate agreements



The prime lending rate and the predominant rate on mortgage loans increased by 25 basis points to 10,50 per cent following the March 2016 increase in the repurchase rate, as private-sector banks raised their interest rates on the different deposit and loan categories in line with the movement in the policy rate.

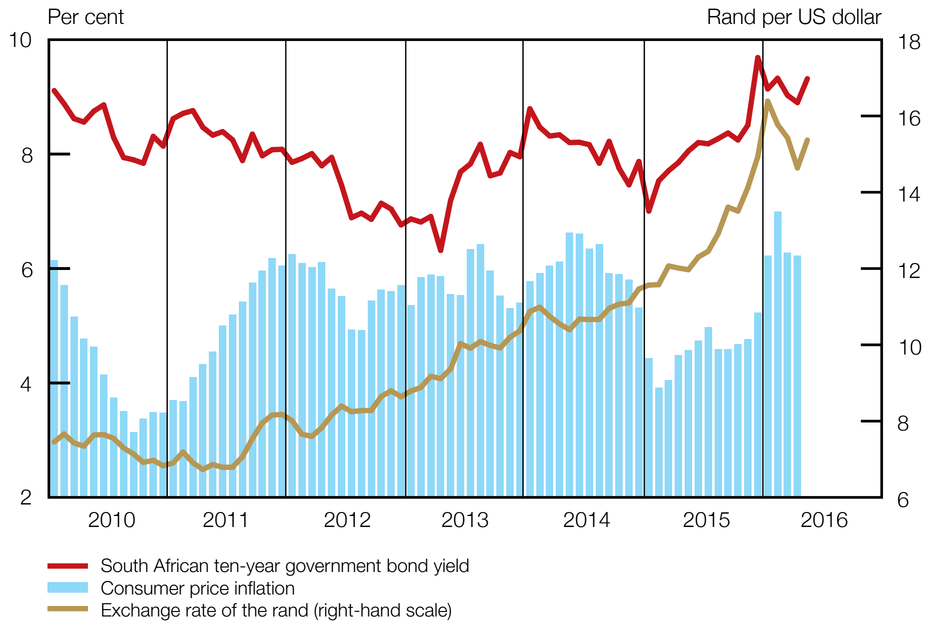
After the steep increase in December 2015 induced by cabinet shifts, *South African bond yields* generally fluctuated lower, although they still remained in relatively high territory. While the recovery in international oil prices, increases in the repurchase rate, credit rating concerns and higher inflation gave upward support to bond yields, these were offset by several factors that contributed to the downward trend in yields, including:

– the appreciation in the exchange value of the rand;
– additional fiscal consolidation announced in the February 2016 Budget;
– continued weak economic growth;
– improved non-resident demand for local bonds; and
– an indication by the US Federal Reserve that further interest rate increases may be delayed.

Renewed credit rating concerns contributed to a rebound in South African bond yields in May 2016, but this was reversed when the three major credit rating agencies affirmed their investment-grade sovereign ratings of South Africa.

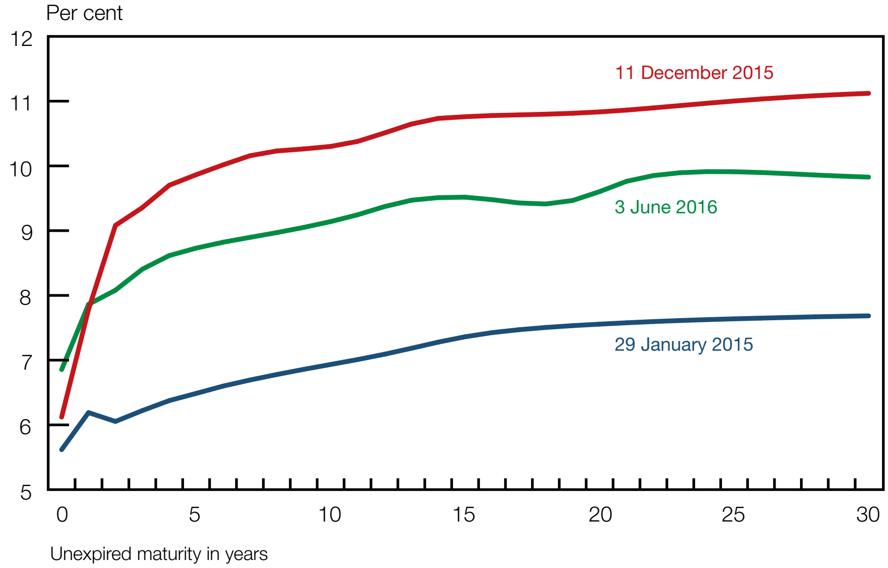
Internationally bond yields softened, with the daily closing yield on the US ten-year government bond decreasing by 60 basis points from 2,31 per cent on 30 December 2015 to 1,71 per cent on 3 June 2016. The daily closing yield on the South African ten-year government bond on balance declined by 116 basis points from a high of 10,30 per cent on 11 December 2015 to 9,14 per cent on 3 June 2016.

Government bond yield, inflation and exchange rate



In line with these developments, the South African *yield curve* moved generally higher throughout 2015, peaking on 11 December 2015, before contracting to 3 June 2016. The extreme short end of the curve, however, increased during 2016 in line with the increases in the repurchase rate. The shape of the yield curve flattened with the long end of the curve displaying a horizontal and at times even marginally downward slope. The *yield gap*, measured as the difference between yields at the extreme long and short ends of the curve, therefore narrowed significantly from 500 basis points on 11 December 2015 to 297 basis points on 3 June 2016.

Yield curve



Although domestic rand-denominated government bond yields generally trended downwards, the *currency risk premium*[8] on South African government bonds widened from 411 basis points in December 2015 to 432 basis points in May 2016, as the yield on US dollar-denominated bonds declined more pronouncedly than yields on rand-denominated bonds.

The JPMorgan Emerging Markets Bond Index Plus (EMBI+)[9] yield spread above US government bonds narrowed from 443 basis points in January 2016 to 396 basis points at the end of May as investor sentiment towards emerging-market bonds improved. Similarly, the *sovereign risk premium*[10] on South African government US dollar-denominated bonds in the nine-year maturity range narrowed from 349 basis points to 304 basis points over the same period.

Money market

The daily liquidity requirement of private-sector banks varied between a low of R47,0 billion and a high of R54,3 billion during the first quarter of 2016, slightly higher and wider than the range of between R44,2 billion and R53,9 billion recorded in the fourth quarter of 2015. The moderate increases partly reflected the reforms introduced in recent years to improve the broad alignment of the money-market shortage with underlying conditions in the money market, allowing a gradual longer-term rise in the daily liquidity requirement of the private-sector banks so as to ultimately improve the effectiveness of the transmission of monetary policy. Since the introduction of the new liquidity management strategy in August 2013, the actual average liquidity requirement has roughly doubled to more than R50 billion in the first six months of 2016.

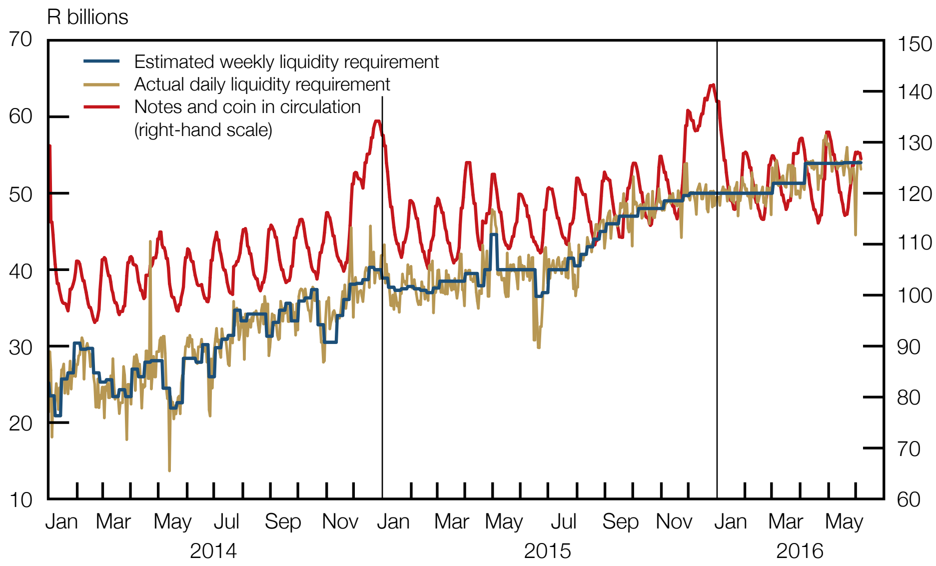
During the first quarter of 2016, liquidity to the net amount of R0,4 billion was drained from the money market, compared to a net drainage of R2,7 billion recorded in the concluding quarter of 2015. In the first quarter of 2016, a largely seasonal contraction in notes and coin in circulation outside the Bank expanded money-market liquidity by R7,5 billion. This was more than neutralised by a rise in banks' cash reserve balances as well as an increase in government deposits placed with the Bank. The latter related to maturing swaps of R9,3 billion, previously entered into to sterilise the money-market effect of foreign reserve accumulation. To neutralise the impact on the market, government deposits were withdrawn from the tax and loan accounts at commercial banks and placed with the Bank.

8 This is the differential between the South African government bond yield on rand-denominated debt issued in the domestic market and the yield on South African government dollar-denominated bonds issued in the United States, both in the nine-to-ten-year maturity range.

9 EMBI+ measures total returns on US dollar-denominated debt instruments of emerging-market economies.

10 The differential between the yield on South African government US dollar-denominated bonds and that on US dollar-denominated bonds of the US government.

Liquidity requirement



The Bank drained R2,7 billion on a net basis through its money-market operations, mainly through entering into reverse repurchase transactions, issuing debentures and conducting liquidity-draining foreign-exchange swaps. This was partly offset by a decrease in call deposits of the Corporation for Public Deposits with the Bank. Spot foreign-exchange transactions by the Bank, amounting to R0,2 billion, had only a minor contracting effect on money-market liquidity. In April and May 2016, liquidity management operations served to inject R5,5 billion into the market, while overall money-market conditions were characterised by a net tightening of market conditions to the value of R4,2 billion.

Capital redemption payments and scheduled coupon interest payments on various government bonds amounting to R38,7 billion were effected from the government tax and loan accounts during January to March 2016, with only R364 million of this amount accruing to the Bank.

Money-market liquidity flows

R billions (easing + tightening –)

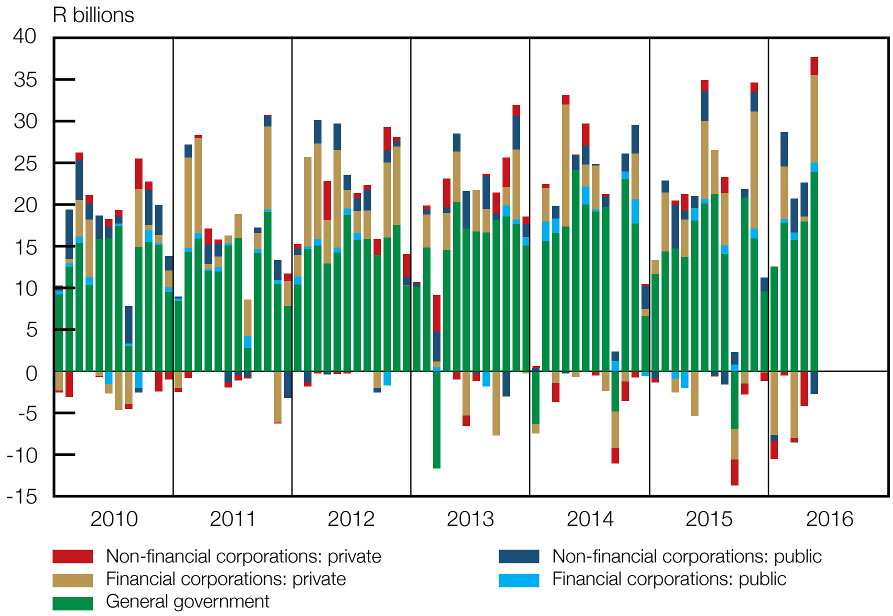
	2015	2016	
	Oct–Dec	Jan–Mar	Apr–May
Notes and coin in circulation	-12,8	7,5	2,5
Change in cash reserve accounts	1,7	-1,4	-10,8
Money-market effect of SARB* foreign-exchange transactions in spot market	-0,1	-0,2	-0,0
Government deposits with SARB	0,0	-9,3	-3,3
Use of liquidity management instruments	8,3	-2,7	5,5
Reverse repurchase transactions	0,0	-2,5	-0,3
SARB debentures	0,7	-0,9	0,9
Forward position (swaps)	10,4	-3,7	-4,4
Corporation for Public Deposits call deposits with SARB	-2,8	4,4	9,3
Other items net	0,3	5,5	2,0
Liquidity provided to banking system	-2,7	-0,4	-4,2

* SARB: South African Reserve Bank

Bond market

While national government dominated the domestic bond market with a nominal amount in issue of around R1 615 billion at the end of May 2016, private financial corporations were the second-largest issuer group with R423 billion. The bulk of these issuances emanated from banks, which broadly continued their presence in the market within the confines of regulatory requirements. With a minuscule contribution by private non-financial corporations and public financial corporations, the remaining issuer group of significance was public non-financial corporations with an amount in issue of R245 billion at the end of May 2016. As a result, the total *outstanding nominal value of debt securities listed* on the JSE Limited (JSE) reached R2,5 trillion at the end of May 2016, after net issues of R96 billion were recorded in the first five months of 2016.

Net issues in the bond market



National Treasury re-entered the international capital markets after an absence of one and a half years by issuing a US$1,25 billion ten-year bond with a coupon rate of 4,875 per cent in April 2016. The R18 billion raised through this issuance will help to finance the budget deficit.

Turnover in the secondary bond market reached record-high levels in the first five months of 2016, bolstered by higher volumes traded. The all-time high daily average turnover of R132 billion in May 2016 contributed to raising the average daily value traded in the first five months of 2016 to R120 billion, which was 26 per cent more than in the corresponding period of 2015. Activity in the local bond market during 2016 was bolstered as volatility in the exchange rate and in bond yields induced repositioning by market participants. On balance, returns recovered, with the All-Bond Index increasing by 7 per cent in the first five months of 2016 after recording a loss of 4 per cent in 2015.

Issuances of rand-denominated bonds in the *European bond markets* continued firmly in 2016, supported by, among other things, the increase of monetary stimulus measures and lowering of interest rates by the ECB. By contrast, rand-denominated bond issuances in the *Japanese Uridashi bond market* remained subdued, as evidenced by net redemptions of R1,9 billion recorded in the first five months of 2016. Consequently, the combined net issues of rand-denominated bonds in both markets amounted to R7,8 billion in the first five months of 2016, which were slightly lower when compared with the net issues of R7,9 billion recorded over the same period in 2015.

Rand-denominated bonds issued in international bond markets, January to May

R millions

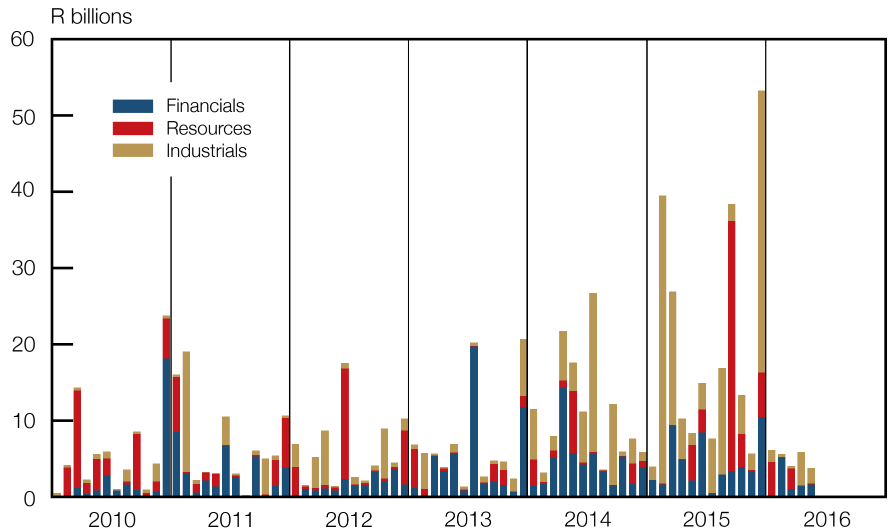
	Eurorand		Uridashi		Total	
	2015	2016	2015	2016	2015	2016
Issues	11 261	14 020	3 485	4 193	14 746	18 213
Redemptions	2 917	4 290	3 920	6 126	6 837	10 416
Net	8 344	9 730	-435	-1 933	7 909	7 797

Following exchange-reported net sales of domestic debt securities by *non-residents* in the last two quarters of 2015, non-residents' appetite for local bonds improved noticeably in the first quarter of 2016, as evidenced by net purchases of R15 billion. The return to riskier emerging-market bonds was buoyed by, among other things, the US Federal Reserve's decision to slow the pace of raising interest rates and the appreciation in the exchange value of the rand. This contributed to cumulative net purchases of local bonds to the amount of R13 billion in the five months to May 2016.

Share market

Along with the ease and efficiency of funding through the JSE, the amount of *equity capital raised* by companies listed on the JSE in the domestic and international primary share markets reached a record high of R250 billion in 2015. However, the continued sluggish domestic economy and volatility in share prices took their toll in the early part of 2016 as equity financing on the JSE decreased and amounted to R27 billion in the first five months of 2016, which was 70 per cent lower than in the corresponding period of 2015. From January to May 2016, the sector where most equity capital was raised was the financial sector, as companies in this sector accounted for 34 per cent of the total capital raised, followed by companies in the industrial sector with 31 per cent.

Equity capital raised on the JSE by sector

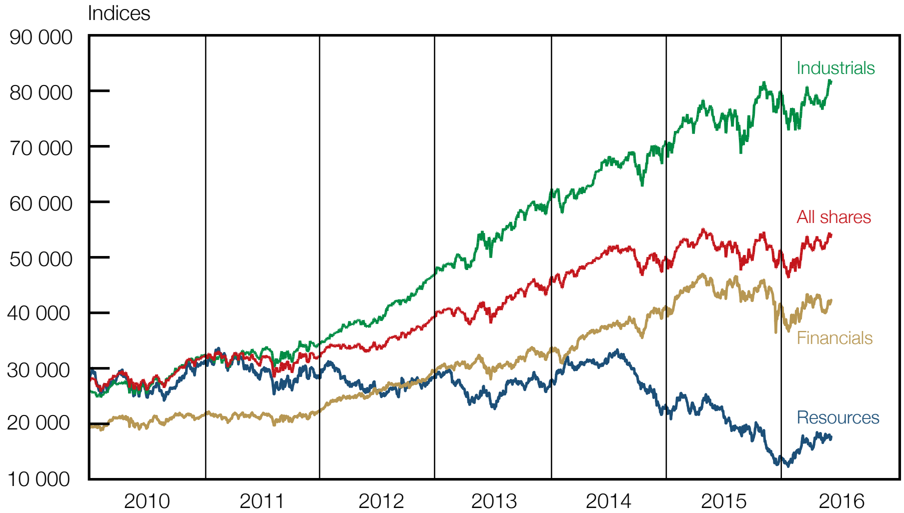


Turnover in the secondary share market increased in the first five months of 2016 to an all-time high daily average of R24 billion, surpassing turnover in the corresponding period of 2015 by 28 per cent. The recovery in share prices and higher volumes traded boosted turnover, with the volume increases following amplified volatility as measured by the increase in the South African Volatility Index in early 2016. In line with the rise in share prices during 2016 and the listing of a large international beverages company, the *market capitalisation* of the JSE increased to an all-time high of R16 trillion in May 2016.

Exchange-reported data continued to reflect negative sentiment as *non-residents* have been net sellers of domestic shares for nine consecutive months since September 2015. Non-residents' loss of appetite for local shares tracked the unfavourable global market sentiment. This brought cumulative net sales of domestic shares by non-residents in the first five months of 2016 to R49 billion, compared with net purchases of R19 billion over the same period in 2015. Non-residents' participation rate in the share market dwindled to an average of 19 per cent in the first five months of 2016, compared with 21 per cent over the same period in 2015.

Despite negative investor sentiment in share markets, fragile economic growth and generally lower earnings of companies listed on the JSE, the *FTSE/JSE All-Share Price Index* (Alsi) has recovered thus far in 2016. The Alsi increased by 17 per cent from a recent low of 46 282 index points on 21 January 2016 to 54 259 index points on 3 June, following, among other things, higher international commodity prices and the monetary stimulus measures adopted by the Chinese and European central banks. The rally in the Alsi was particularly buoyed by higher share prices of companies in the resources sector, recording a gain of 40 per cent over the review period. The domestic share market continued to benefit from the US Federal Reserve's recent decision to keep rates on hold, signalling to markets that the rate increases will proceed at a slow and gradual pace amid slow and moderate growth in the US economy.

FTSE/JSE share price indices



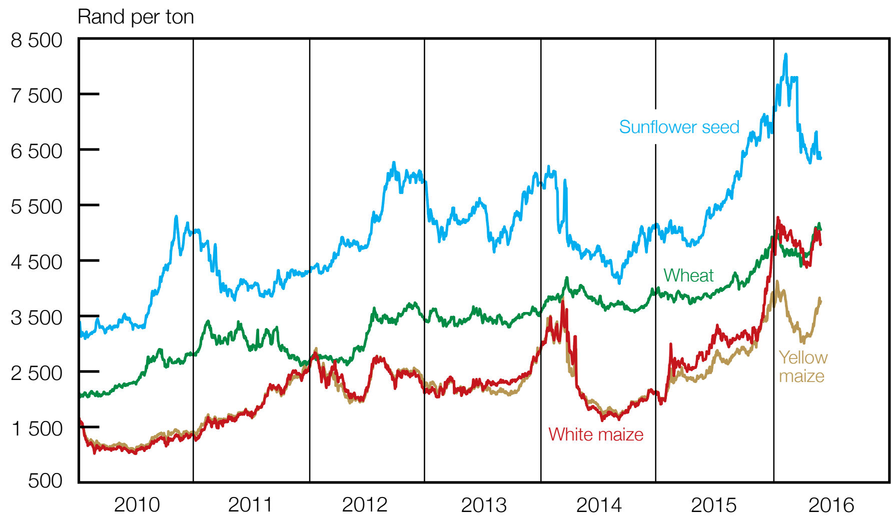
A significant decline in the past twelve months' earnings of companies listed on the JSE – as especially companies in the resources sector recorded losses – resulted in a surge in the historical *price-earnings ratio* for all ordinary shares listed across all sectors and boards from the end of 2015. The price-earnings ratio increased from 18,0 in June 2015 to a record high 52,8 in May 2016. The recent levels of the price-earnings ratio overshadowed the long-term average of 15,1 measured from 1990 to date. According to Bloomberg, however, the price-earnings ratio forecast is expected to fall below the long-term average level by the end of 2017.

Market for exchange-traded derivatives

Following an extended period of drought which led to record-high prices of a number of domestic grains in January 2016, the bullish trend in *agricultural commodity prices* receded. For example, the spot price of domestic white maize, the country's main staple, peaked at R5 280 per ton on 20 January 2016 – more than double its pre-drought price levels – before declining to R4 374 per ton on 20 April. The downward pressure on domestic white maize prices was largely as a result of the appreciation in the exchange value of the rand, rising import volumes and some improvement in weather conditions. With white maize not widely grown globally, supply fears were exacerbated by indications that Zambia – one of South Africa's potential suppliers – was running out of export supplies. However, in order to support agricultural commodities through improvements in supply dynamics, government signalled that it would relax some of its regulatory restrictions to facilitate white maize imports. Imports of white maize from the US were recorded in April 2016, entering South African ports for the first time in more than a decade.

Subsequently, the prices of domestic grains reverted higher and remain at high levels. Price pressures from spillover effects of the drought and the recent increase in international oil prices are expected to continue fuelling food prices and inflation in the short to medium term.

South African grain prices



Turnover in the *commodity derivatives market* of the JSE increased briskly during the five months to May 2016 when compared with the same period of 2015, bolstered by movements in agricultural commodity prices. However, equity derivatives continued to dominate overall turnover levels of derivatives traded on the JSE, as indicated in the table below.

Derivatives turnover on the JSE, January to May 2016

Type of derivative	Value (R billions)	Change over one year (Per cent)
Equity	2 625	15
Warrants	0,3	10
Commodity	428	71
Interest rate	480	35
Currency	279	40

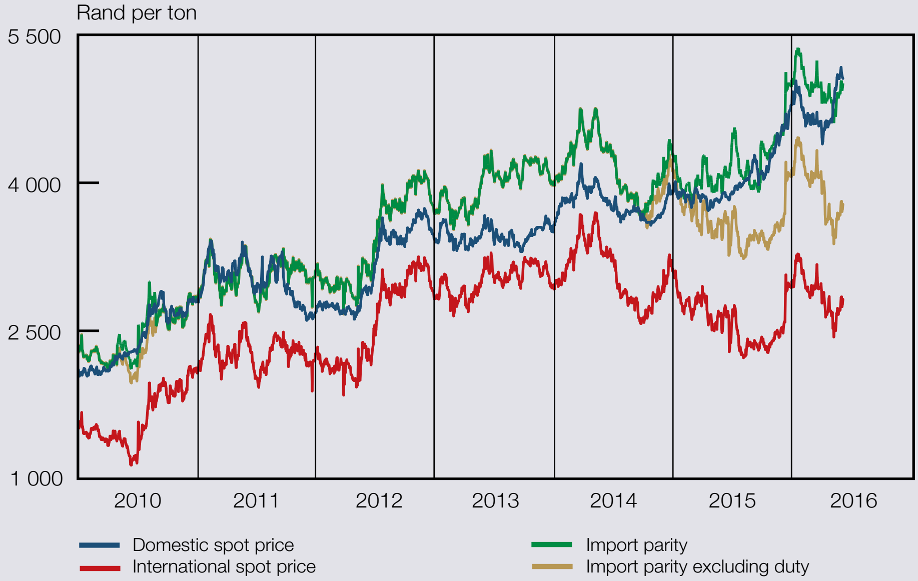
Box 2 South African import tariffs on wheat

Wheat is the second most important crop in South Africa after maize, and is mainly used for human consumption in the form of bread and cereals. The remainder, often of poorer quality, is used as animal feed and other non-food substances. Although not self-sufficient, and being one of the smallest wheat producers in the world, South Africa produces high-quality wheat. Being the country's secondary staple food, local consumption demand outstrips supply by a sizeable margin, making South Africa a net importer of this grain. To compensate for the domestic production shortfall, wheat is sourced from global markets, with countries such as Russia, Germany, Canada and Ukraine being prominent suppliers.

The domestic wheat market was governed by extensive regulations from 1937 to 1996. All marketing, regulation and distribution arrangements of wheat were administered by the Wheat Board, vested with the sole right to buy and sell wheat at predetermined prices, and controlling all imports and exports of this grain. However, the South African wheat industry was officially deregulated in November 1997, leaving domestic price trends to market forces. This was accompanied by a reduction in local wheat production, due to reduced bargaining power and limited profit margins. Low profitability prompted local producers to scale down on wheat production and switch to more profitable, higher-yielding crops. The graphs on the next page illustrate trends in the domestic wheat market since 1990.

The open market system imposed by deregulation allowed ease of access to cheap imports, forcing local producers to compete with international wheat markets. Foreign producers in many instances enjoy the advantages of favourable climatic and soil conditions, and economies of scale. Furthermore, global wheat production is also characterised by heavy subsidies paid to farmers in many developed countries. Wheat prices in global markets are thus generally lower than domestic prices, as shown in the graph below. Although influenced by various other factors, South African wheat prices are largely guided by exchange rate fluctuations, global trends and wheat import parity prices,[1] with domestic wheat farmers essentially being price takers in the market.

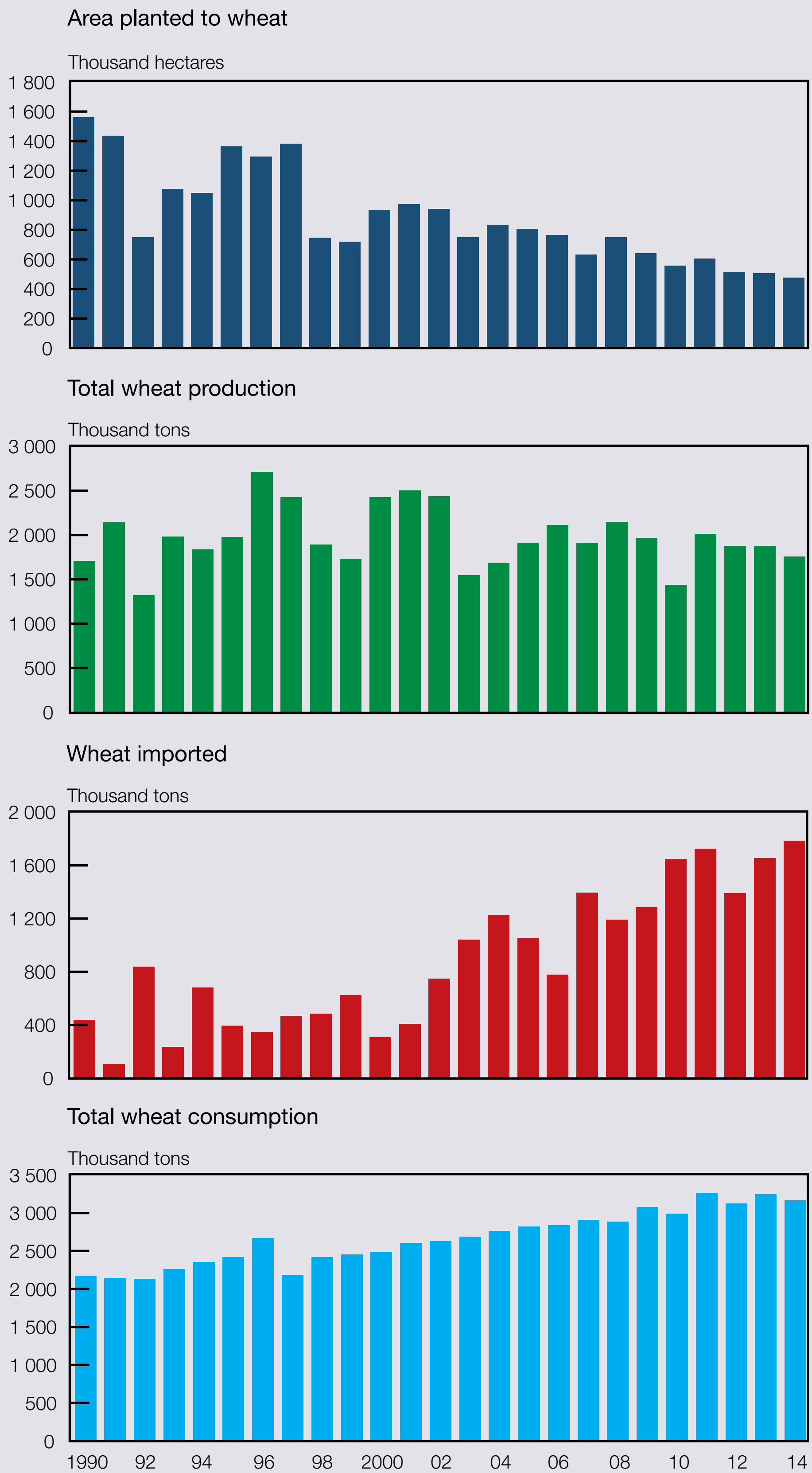
Market price of wheat



The year 2015 was characterised by a noticeable decline in international wheat prices, dragged lower by two back-to-back record world wheat crops, owing to favourable weather conditions. This gave rise to a series of adjustments in the level of the domestic wheat import tariff.[2]

Since deregulation, wheat import tariffs essentially became government's only instrument of intervention in the market. The existing wheat import tariff dispensation, commonly referred to as the variable tariff formula, was introduced in 1999, with the domestic dollar-based reference price set at US$157 per ton. This was later raised to US$215 per ton in March 2010, and since April 2013 has been set at US$294 per ton. The import tariff serves as a price support mechanism to domestic farmers since it raises the cost of imports. For an adjustment review on import tariffs, the affected industry role players will typically submit a request to the International Trade Administration Commission of South Africa (ITAC). This is the body advising the Minister of Trade and Industry on matters relating to the setting of import tariffs. After consultation with the relevant industry role players, ITAC organises its deliberations, and submits its recommendations to the Minister of Trade and Industry for final approval and implementation. With the current dispensation, it may take a long period of time after an adjustment was triggered for a new tariff to be published and implemented.

1. Price of wheat at the port of entry, including a wheat tariff, as well as transport and all other costs.
2. Tax or duty payable on wheat imports at point of entry.



Marketing years where, for example, 2014 refers to the 2014/15 marketing year.

Sources: South African Department of Agriculture, Forestry and Fisheries and South African Grain Information Service

The approach taken to protect domestic wheat producers through a wheat import tariff is to calculate the difference between the domestic dollar-based reference price and the world reference price for wheat. The current domestic dollar-based reference price was arrived at by averaging the international wheat prices (US No. 2 Hard Red Winter (HRW)) over a five-year period, adding an estimate of the subsidy received by foreign producers to that price (since it represents additional money in the pocket of those producers), and subtracting the ocean transport costs of wheat incorporated in the international price (since those costs would have to be paid to shipping companies from the international price, and would therefore not accrue to wheat farmers). The world reference price is the three-week moving average US No. 2 HRW wheat price as published in the International Grains Council *Grain Market Report.* The domestic dollar-based reference price therefore provides a base for adjustments of the import duty payable on international wheat at domestic ports.

The difference between the world reference price and the previous trigger world reference price level is calculated on a weekly basis. The trigger for a change in the import tariff is arrived at when the world reference price shows a variance of more than US$10 per ton from the previous trigger world reference price level for three consecutive weeks. To calculate the new tariff, the world reference price is subtracted from the domestic dollar-based reference price and converted to rand according to the rand/dollar exchange rate prevailing on the day that the adjustment was triggered. When the world reference price is higher than the domestic dollar-based reference price, the formula will not yield any duty.

The table below indicates wheat import tariff adjustments since 2002.

Date implemented	Tariff (Rand per ton)
12 January 2002	196,00
16 September 2002	43,60
23 September 2002	Duty free
4 July 2003	32,80
30 July 2003	105,20
22 August 2003	217,90
3 October 2003	22,00
16 January 2004	Duty free
13 August 2004	18,67
27 July 2005	2% of free-on-board-price
19 December 2008	Duty free
30 April 2010	140,70
15 July 2010	260,90
27 August 2010	Duty free
10 October 2014	157,00
13 March 2015	461,00
19 June 2015	800,10
21 August 2015	510,60
25 September 2015	911,20
11 April 2016	1 224,31

The challenge in raising tariffs runs deeper than merely setting an appropriate level which will benefit local producers. A whole value chain – wheat farmers, millers, bakers, retailers, and consumers – is involved. The subsequent possible inflationary effects, and the ultimate cost to be borne by the consumer, as the final user in the value chain, must also be taken into account. Since tariff revenue feeds into the fiscal accounts, government as fiscal agent is also involved. Concerns regarding the impact of a higher wheat import duty on the price of bread and other staple foods have prompted requests for a review of the variable tariff formula on wheat by ITAC.

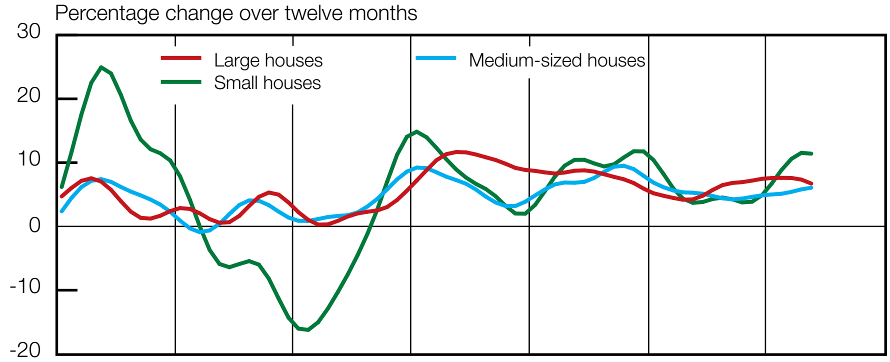
Although the current combination of a weak exchange rate of the rand and higher import duties on wheat is bolstering the revenue of wheat producers, the wheat industry continues battling challenges ranging from high input costs to changing climatic conditions. It is acknowledged that increasing import tariffs will not solely address the growing reliance on imports. The industry is collaboratively working on establishing strategies to provide appropriate stimulus so that the growing reliance on imported wheat can be reversed.

Real-estate market

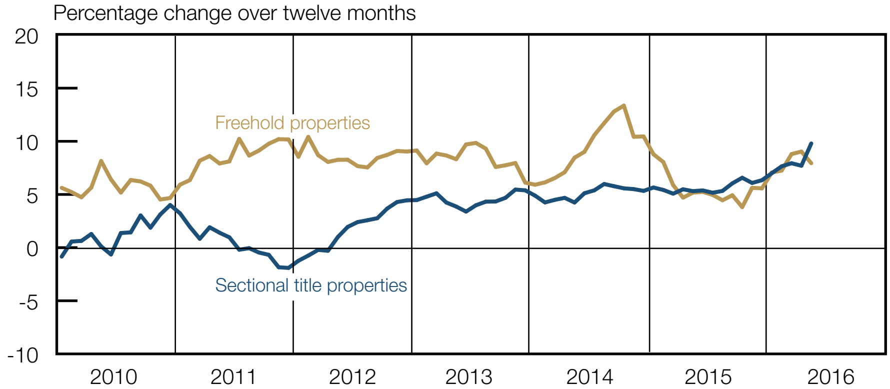
Nominal house price inflation continued to reflect weak consumer confidence and squeezed consumer finances, against a backdrop of challenging economic conditions in the form of subdued economic growth, muted employment gains, rising inflation and gradual interest rate increases. In May 2016, the year-on-year rate of increase in house prices remained relatively stable at single-digit levels, ranging between 5 per cent and 7 per cent across the different barometers. Higher house price inflation was encountered in the small house category, which registered a year-on-year inflation rate of 11 per cent in May 2016. This trend was also reflected in the year-on-year increase in the sectional title and freehold property indices. Since April 2015, sectional title property prices have reversed their trend to generally outperform freehold property prices, possible due to a slowdown in the supply of flats and townhouses in 2015.

While the number of residental property transfers declined during 2016, turnover in the total real-estate market continued to rise gradually, according to data on transfer duty collected.

Absa house price indices by segment



Standard Bank house price indices by type



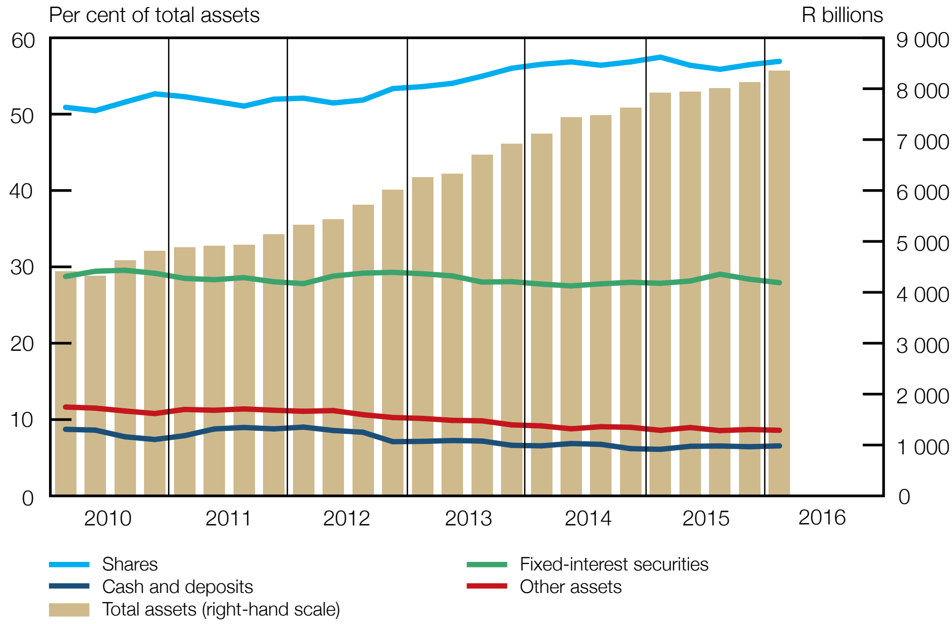
Non-bank financial intermediaries

The balance sheet of non-bank financial institutions[11] benefited from a recovery in share prices in the first quarter of 2016. Total assets of these institutions increased by 3 per cent from the final quarter of 2015 to R8,4 trillion in the first quarter of 2016. The activity of these institutions was especially buoyed by growth in the assets of long-term insurance companies and unit trusts, which together accounted for 59 per cent of non-bank financial institutions' assets in the first quarter of 2016.

11 These consist of unit trusts, the Public Investment Corporation, long- and short-term insurance companies, public and private pension funds, participation bond schemes, finance companies, and non-monetary public financial corporations.

The asset allocation of non-bank financial institutions was in line with financial market movements in the first quarter of 2016. The proportion of assets exposed to shares increased by 1 percentage point from the final quarter of 2015 to comprise 57 per cent of total assets in the first quarter of 2016. The increase in the share portfolio of these institutions was buoyed by higher domestic share prices over the same period. Funds invested in cash and deposits increased slightly from 6 per cent of total assets in the final quarter of 2015 to 7 per cent in the first quarter 2016 – this share was 1 percentage point below its ten-year average. The steady increase in the exposure to cash and deposits was probably supported by the increases in interest rates, poor growth prospects and volatility in financial markets. Investment into money-market unit trusts amounted to R8,0 billion in the first quarter of 2016, compared with net outflows of R0,5 billion in the previous quarter. In the first quarter of 2016, the majority investor in money-market funds was the household sector.

Asset holdings of non-bank financial institutions



Holdings of fixed-interest securities by non-bank financial institutions remained unchanged at 28 per cent of total assets in the final quarter of 2015 and the first quarter of 2016. The value of loans extended by non-bank financial institutions to households and companies increased by 1 percentage point from the final quarter of 2015 to 6 per cent of total assets in the first quarter of 2016. Growth in foreign assets of these institutions was dampened by the relatively weak performance of global share markets and the appreciation in the exchange value of the rand during the first quarter of 2016.

Net inflows[12] to non-bank financial institutions were subdued in the first quarter of 2016. The gross outflow of funds from these institutions remained elevated, in line with a weak economic environment and job losses in the private sector. The deterioration in economic conditions and households' disposable income will weigh negatively on the amount of funds available for investment in 2016. However, the continued increase in share prices might lend some support to the balance sheet of these institutions.

12 Calculated as gross inflows minus gross outflows of funds.

Public finance[13]

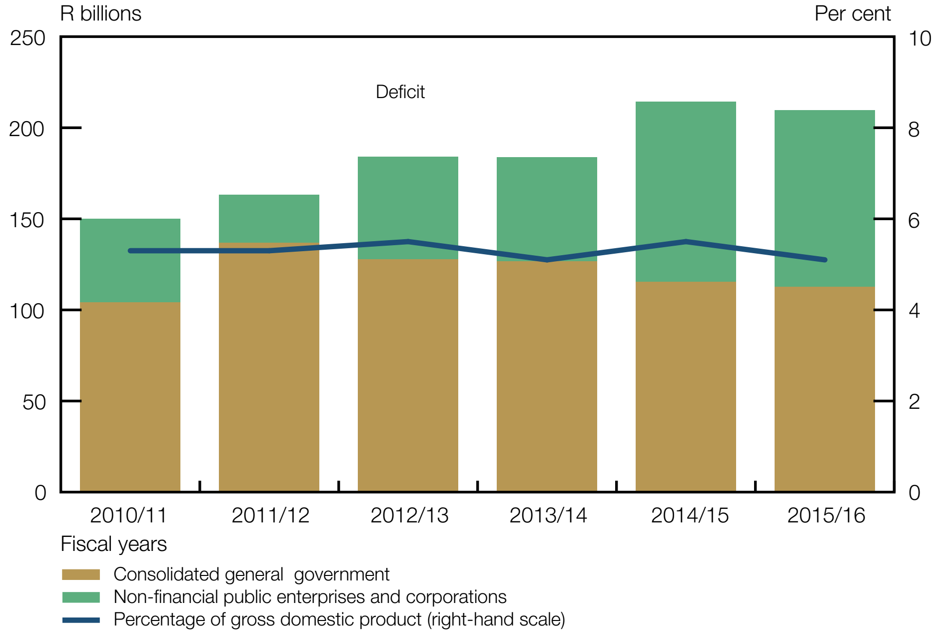
13 In this section, unless stated otherwise, year-on-year rates of increase compare fiscal 2015/16 to fiscal 2014/15.

14 Calculated as the cash deficit/surplus of the consolidated central, provincial and local governments, and non-financial public enterprises and corporations.

Non-financial public-sector borrowing requirement[14]

In fiscal 2015/16, the *non-financial public-sector borrowing requirement* amounted to R210 billion – R4,5 billion lower than in the previous fiscal year. The decline resulted from the narrowing of the cash deficit of both the non-financial public enterprises and the consolidated general government. The higher cash surpluses recorded by both social security funds and local governments were the main drivers of the decline in the cash deficit of the consolidated general government. National government, the main contributor to the consolidated general government, also recorded a lower deficit, mainly as a result of the one-off proceeds from the sale of Vodacom shares in fiscal 2015/16.

Non-financial public-sector borrowing requirement



As a percentage of GDP, the non-financial public-sector borrowing requirement amounted to 5,1 per cent in fiscal 2015/16, lower than the ratio of 5,5 per cent recorded in the previous fiscal year.

Non-financial public-sector borrowing requirement

R billions

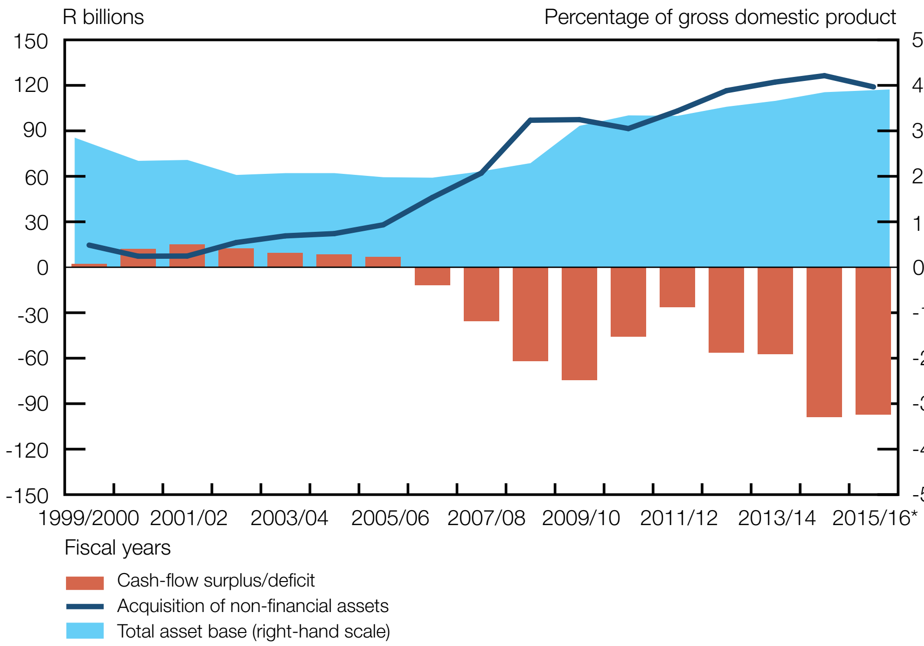
Level of government	2014/15*	2015/16*
Consolidated general government	115,6	112,6
National government	161,0	157,5
Extra-budgetary institutions	-10,2	-2,4
Social security funds	-11,7	-18,1
Provincial governments	-6,4	-2,3
Local governments	-17,1	-22,2
Non-financial public enterprises and corporations	98,7	97,2
Total**	**214,3 ****	**209,8 ****
As percentage of gross domestic product	*5,5*	*5,1*

* Deficit + surplus –
** Components may not add up to totals due to rounding

The borrowing requirement of the consolidated general government amounted to R113 billion in fiscal 2015/16, or R3,0 billion lower than in fiscal 2014/15. As a ratio of GDP, the consolidated general government borrowing requirement amounted to 2,8 per cent, higher than the 3,0 per cent recorded a year earlier.

Preliminary financial estimates of the *non-financial public enterprises and corporations* showed a modest narrowing of the cash deficit which amounted to R97,2 billion – some R1,5 billion lower when compared with the 2014/15 audited financial outcome. This slight narrowing could be attributed to a fall in total expenditure which was higher than the decline in total revenue. Both current and capital expenditure categories declined, while cash-flow revenue collections remained sluggish and below levels recorded a year earlier, reflecting weaker domestic economic activity. The widening cash deficit of non-financial state-owned companies over the past decade had been driven by capital expenditure and accompanied by significant growth in these companies' total asset base. As a ratio of GDP, the total asset base of non-financial state-owned companies recovered from its lowest level at 19,7 per cent in fiscal 2006/07 to more than 39,1 per cent in fiscal 2015/16.

Financial activities of non-financial public enterprises and corporations



* Preliminary estimates

The total net investment in non-financial assets by non-financial public enterprises and corporations contracted by R11,6 billion and amounted to R114 billion in fiscal 2015/16. Despite this slowdown, gross fixed capital formation by non-financial state-owned companies remained in firm territory relative to historical trends. The *Budget Review 2016* projected that infrastructure spending by these public-sector units would reach R337 billion over the medium term, signalling government's ongoing commitment to support economic recovery and sustainable growth.

Amid a slowdown in estimated cash-flow revenue, most non-financial public enterprises and corporations continued to raise funding from the bond market through the net issuance of R13,1 billion during fiscal 2015/16, bringing their overall outstanding listed debt to R243 billion as at 31 March 2016. This was largely driven by the major state-owned companies such as Eskom, Transnet, the South African National Roads Agency Limited (SANRAL) and the Trans-Caledon Tunnel Authority (TCTA), which together account for the lion's share of total listed debt securities issued by non-financial state-owned companies. Most state-owned companies continued to benefit from government guarantees. The *Budget Review 2016* envisaged that guarantees to state-owned enterprises and corporations, including the development finance institutions, would total R467 billion with total exposure (utilised guarantees) of R258 billion at the end of March 2016. Of these guarantees, Eskom has been the biggest beneficiary, taking R350 billion.

For fiscal 2015/16, preliminary financial statistics of *national government* indicated that cash receipts from operating activities amounted to R1 129 billion, or 11,4 per cent more than in fiscal 2014/15. All major revenue categories recorded increases during the period under review, with relatively strong increases recorded in taxes on property, taxes on international trade and transactions as well as non-tax revenue.

National government's cash payments for operating activities amounted to R1 265 billion in fiscal 2015/16, representing a year-on-year rate of increase of 9,7 per cent. Over the same period, compensation of employees amounted to R134 billion, or 11,4 per cent more, while grants paid to other levels of general government totalled R683 billion – some 6,8 per cent more when compared with the preceding fiscal year.

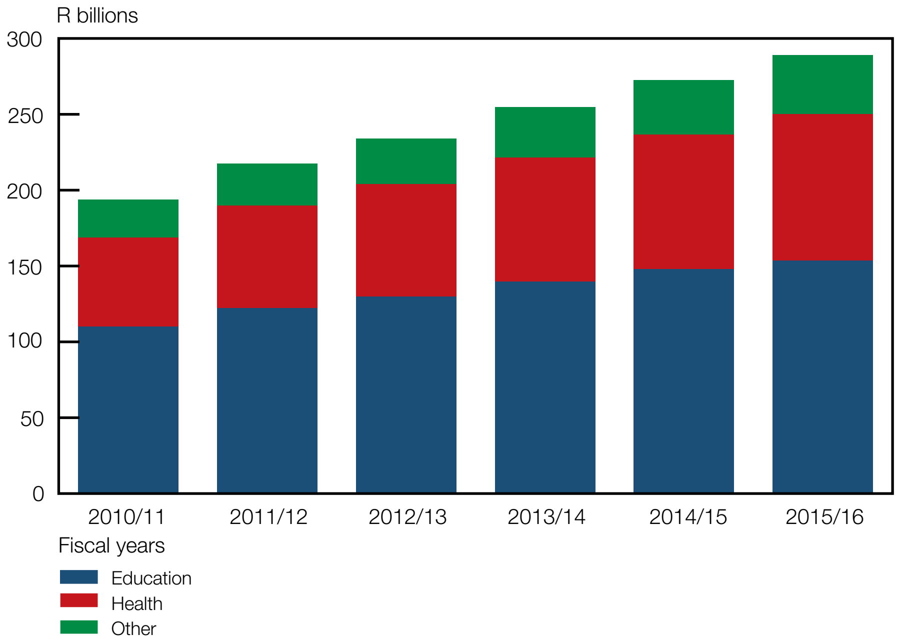
In fiscal 2015/16, net cash flow from operating activities, together with net investment in non-financial assets, resulted in a cash deficit of R158 billion – about R3,4 billion lower than in the previous fiscal year.

Preliminary financial reports of *provincial governments* showed a cash surplus of R2,3 billion in fiscal 2015/16 – some R4,1 billion lower than the cash surplus recorded in fiscal 2014/15. This significant reduction in the cash surplus was primarily on account of the 2015 public-sector wage settlement agreement. The *Budget Review 2015* projected that provincial governments would record a cash surplus of R0,2 billion for fiscal 2015/16.

Total provincial government revenue amounted to R488 billion in fiscal 2015/16, representing a year-on-year rate of increase of 6,0 per cent. Growth in cash receipts was predominantly driven by grants – equitable share transfers and conditional grants. These grants amounted to R471 billion, representing 96,7 per cent of total provincial government revenue.

Total provincial government expenditure – cash payments for operating activities together with net investment in non-financial assets – amounted to R485 billion in fiscal 2015/16, or 7,0 per cent more than in the previous fiscal year. The bulk of provincial government expenditure continued to be driven by the compensation of employees which amounted to R289 billion, or 60 per cent of total expenditure.

Provincial government compensation of employees

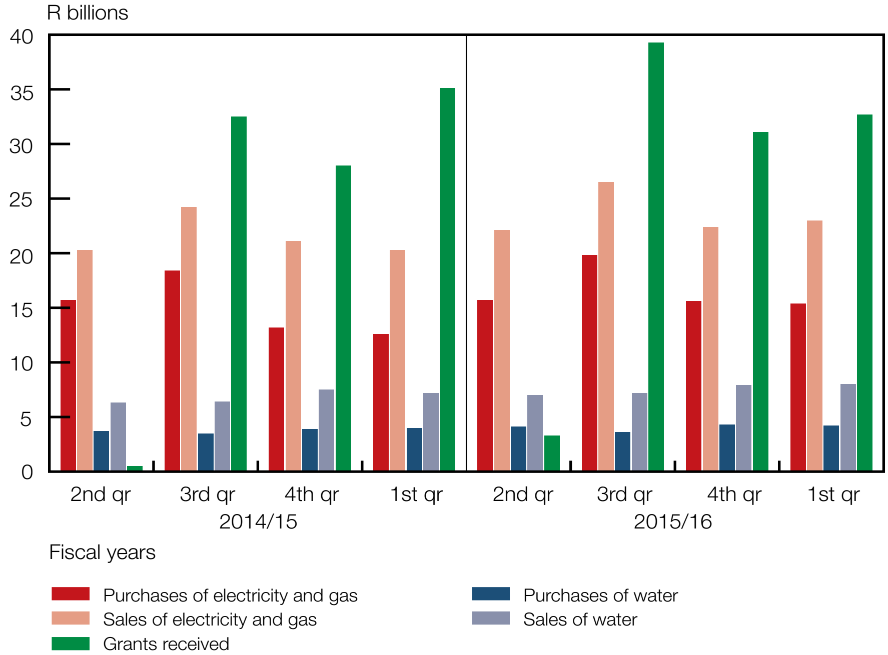


Provincial governments' deposits with the Corporation for Public Deposits decreased from R21,3 billion at the end of March 2015 to R19,0 billion at end of March 2016. At the same time, their deposits with private banks increased from R10,8 billion to R17,3 billion, while their overall indebtedness to private banks increased from R0,4 billion to R0,7 billion over the same period.

Preliminary financial data of *local governments* showed a cash surplus of R22,2 billion in fiscal 2015/16 compared with a cash surplus of R17,1 billion recorded in the previous fiscal year. The improvement in the cash surplus was on account of pronounced growth in cash receipts from operating activities which outpaced the increase recorded in total expenditure.

Cash receipts from operating activities amounted to R341 billion, representing a year-on-year rate of increase of 8,1 per cent during fiscal 2015/16. Sales of water, electricity and gas together with inter-governmental transfers continued to drive growth in total revenue of local government. Inter-governmental transfers increased by 10,8 per cent, while sales of goods and services increased by 8,8 per cent year on year.

Municipal rates* and inter-governmental grants received



* Purchases and sales of water and electricity by municipalities are recorded on an invoice basis, that is, when the municipality receives an invoice from the supplier of bulk water and electricity, a purchase is recorded and, similarly, when the municipality invoices the consumers for the consumption of water and electricity, a sale is recorded. Transactions include prepaid cash as well as payables to service providers (creditors), receivables from consumers (debtors) and cash prepayments for water and electricity by consumers.

During the period under review, local governments' cash payments for operating activities continued to rise and increased by 10,4 per cent compared with 2014/15 to reach R268 billion. This increase could be attributed to the higher growth recorded in the purchases of goods and services – mainly water and electricity. Net investment in non-financial assets declined by 8,4 per cent and amounted to R50,5 billion.

Preliminary estimates indicated that *extra-budgetary institutions* recorded a cumulative cash surplus of R2,4 billion in fiscal 2015/16, notwithstanding a cash deficit of R3,2 billion recorded in the final quarter of this period. The cumulative cash surplus was significantly lower than the R10,2 billion cash surplus recorded in the previous fiscal year.

Social security funds recorded a preliminary estimated cash surplus of R18,1 billion in fiscal 2015/16. This was significantly higher than the cash surplus of R11,7 billion recorded in the previous fiscal year, and well above the originally budgeted cash surplus of R11,6 billion as envisaged in the *Budget Review 2015*.

Budget comparable analysis of national government finance

National government revenue and expenditure for the full 2015/16 fiscal year were higher than the original February 2015 budgeted projections, but somewhat lower compared to the revised February 2016 projections. The result was a relatively higher cash-book deficit for the 2015/16 fiscal year when compared to the previous year.

National government finances: key statistics, 2015/16

Year-on-year percentage change*

	Budget Review 2015	*Budget Review 2016*	Actual Full 2015/16
		Per cent	
Expenditure	8,0	10,2	9,9
Revenue	9,6**	12,2	11,6
Deficit	R173 billion	R173 billion	R175 billion

* Fiscal 2014/15 to fiscal 2015/16
** Before incorporation of one-off Eskom, New Development Bank and Vodacom transactions

In fiscal 2015/16, national government expenditure totalled R1 244 billion, representing a year-on-year rate of increase of 9,9 per cent when compared with the previous fiscal year. As a ratio of GDP, national government expenditure amounted to 30,4 per cent in fiscal 2015/16 – higher than the ratio of 29,3 per cent recorded in fiscal 2014/15. The higher ratio could largely be attributed to one-off capital injections into Eskom and the New Development Bank in fiscal 2015/16, alongside lower nominal GDP growth. The *Budget Review 2016* projected that national government spending would increase by 10,2 per cent to cumulatively amount to R1 248 billion at the end of fiscal 2015/16. Actual national government expenditure was about R4 billion lower than the February 2016 revised budget projections, mainly due to underspending by the Department of Cooperative Governance and Traditional Affairs and the Department of Social Development.

National government expenditure in fiscal 2015/16

Expenditure item	Originally budgeted Full 2015/16		Actual Full 2015/16	
	R billions	Percentage change*	R billions	Percentage change*
Voted amounts	704,5	12,5	698,8	11,6
Current payments	194,6	9,2	193,9	8,8
Transfers and subsidies	464,8	8,5	458,4	7,0
Payments for capital assets	16,7	4,6	17,3	8,3
Payments for financial assets	28,4	705,1	29,1	726,5
Statutory amounts**	542,8	7,3	544,9	7,7
Of which: Interest on debt	126,3	10,1	128,7	12,2
Total expenditure	1 247,4	10,2	1 243,7	9,9

* Fiscal 2014/15 to fiscal 2015/16. Note that figures might differ from previous editions of the *Quarterly Bulletin* due to the audited outcome of fiscal 2014/15
** Including extraordinary payments

As shown in the accompanying table, higher total spending was driven by increases recorded in voted expenditure, interest payments and other statutory payments. Transfers and subsidies, alongside current payments, contributed the most to total voted expenditure, but actual outlays in both these spending categories remained below budgetary projections in the *Budget Review 2016*.

Current payments recorded a year-on-year increase of 8,8 per cent, with two thirds of the outlays in this category undertaken by the departments in the Justice, Crime Prevention and Security cluster together with the departments of Police, Defence and Military Veterans, and Correctional Services.

Transfers and subsidies recorded a year-on-year rate of increase of 7,0 per cent in fiscal 2015/16. The departments responsible for education, health and social services accounted for 47,9 per cent of the total transfers and subsidies. Further spending on transfers and subsidies were by the departments of Cooperative Governance and Traditional Affairs, Transport, Human Settlements as well as the National Treasury, which together accounted for 36,6 per cent. The Department of Cooperative Governance and Traditional Affairs transferred R49,4 billion to local governments during the year under review.

In fiscal 2015/16, payments for capital assets amounted to R17,3 billion, representing an increase of 8,3 per cent year on year, which was higher than revised Budget 2016 expectations of 7,0 per cent. Government departments increased their expenditure in the latter part of the fiscal year as they spent almost half of their projected spending in the last three months of fiscal 2015/16.

Payments for financial assets accelerated sharply in fiscal 2015/16 when compared with the preceding fiscal year. The steep rise in this spending category emanated from the R23 billion transferred to Eskom and the R2 billion transferred to the New Development Bank during the fiscal year, both comprising capital injections.

Interest payments on national government debt increased by 12,2 per cent year on year, amounting to R129 billion in fiscal 2015/16. The rate of increase in these payments were higher than the 10,1 per cent and the 11,4 per cent estimated in the *Budget Review 2015* and *Budget Review 2016* respectively due to higher levels of government debt.

During fiscal 2015/16, equitable share transfers to provinces amounted to R387 billion, or 6,6 per cent more than in the previous fiscal year. Metropolitan municipalities received a further R3,6 billion of the general fuel levy in March 2016, bringing the total amount received to R10,7 billion in fiscal 2015/16.

After accounting for cash-flow adjustments,[15] the cash-flow expenditure of national government amounted to R1 225 billion in fiscal 2015/16, representing a year-on-year rate of increase of 11,3 per cent.

Revenue of national government totalled R1 069 billion in fiscal 2015/16, or 11,6 per cent more than a year earlier.[16] Higher revenue collections were driven by brisk receipts in most major tax categories, particularly taxes on property, taxes on international trade and transactions, and non-tax revenue. Although national government revenue was higher in fiscal 2015/16 when compared with the previous fiscal year, it was marginally lower than the February 2016 revised estimates. National government revenue as a ratio of GDP reached 26,1 per cent in fiscal 2015/16 – higher than the ratio of 24,8 per cent recorded in the preceding fiscal year. The increase in this ratio could largely be explained by the one-off sale of Vodacom shares in fiscal 2015/16.

15 These are adjustments arising from timing differences between the recording of transactions and bank clearances, along with late departmental requests for funds.

16 In the calculation by the Bank, revenue excludes premiums on debt portfolio restructuring and loan transactions. These came to R5,4 billion in fiscal 2015/16.

National government revenue in fiscal 2015/16

Revenue source	Originally budgeted Full 2015/16		Actual Full 2015/16	
	R billions	Percentage change*	R billions	Percentage change*
Taxes on income, profits and capital gains	620,9	10,5	606,8	8,0
Income tax on individuals	*394,7*	*11,5*	*389,3*	*10,0*
Income tax on companies	*203,7*	*9,2*	*193,4*	*3,6*
Payroll taxes	14,7	4,7	15,2	8,5
Taxes on property	13,7	9,8	15,0	20,6
Taxes on goods and services	389,2	9,2	385,7	8,2
Value-added tax (VAT)	*283,8*	*8,6*	*281,1*	*7,6*
Domestic VAT	*314,0*	*9,4*	*297,4*	*3,7*
Import VAT	*140,0*	*2,5*	*150,7*	*10,4*
Taxes on international trade and transactions	42,6	2,7	47,0	13,4
Import duties	*41,7*	*2,4*	*46,3*	*13,7*
Other revenue**	44,3	93,7	49,7	117,6
Less: SACU*** payments	51,0	-1,4	51,0	-1,4
Total revenue	1 074,3	12,2	1 068,5	11,6

* Fiscal 2014/15 to fiscal 2015/16. Note that figures might differ from previous editions of the *Quarterly Bulletin* due to the audited outcome of fiscal 2014/15

** Including extraordinary receipts, but excluding premiums of R5,4 billion on debt portfolio restructuring and loan transactions

*** Southern African Customs Union

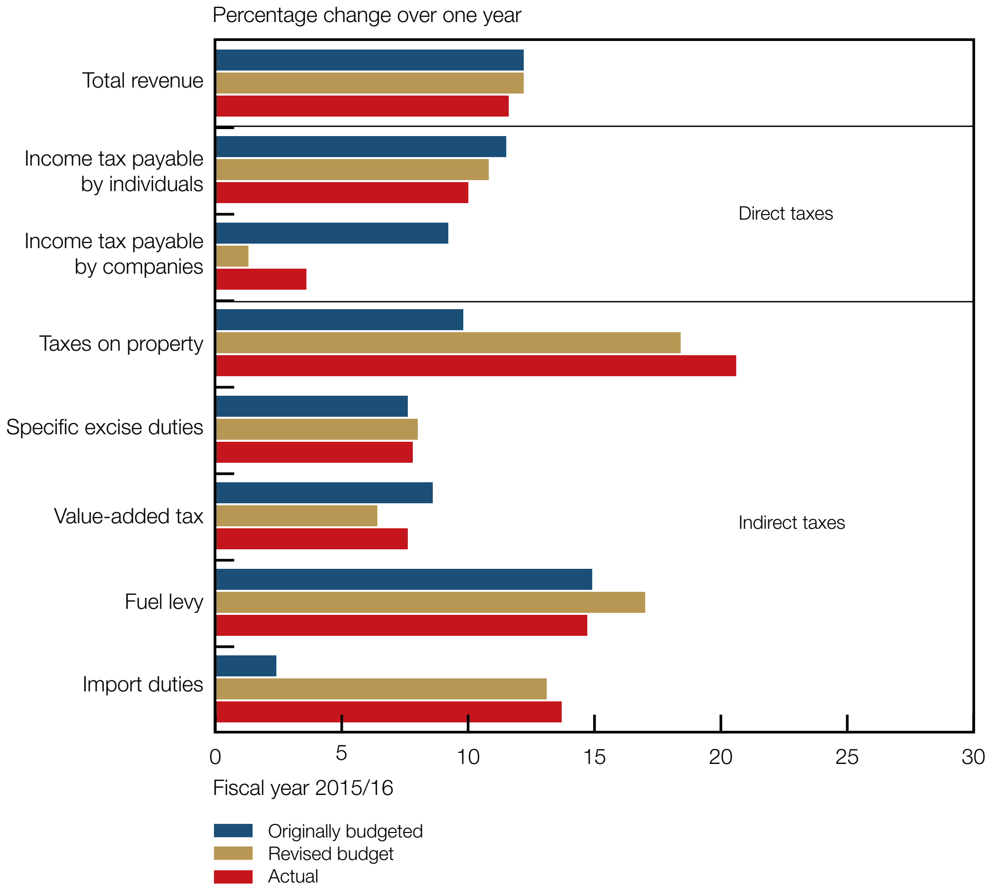
In fiscal 2015/16, taxes on income, profits and capital gains increased by 8,0 per cent year on year, but fell below the February 2016 budgetary projections. Personal income tax revenue was lower than expected, owing to a slowdown in pay-as-you-earn receipts towards the end of fiscal 2015/16. Although corporate income tax collections improved to some extent in the last few months of fiscal 2015/16, growth in this tax category remained weak in fiscal 2015/16, primarily due to lower provisional payments reflecting the generally subdued economy.

Buoyant receipts from taxes on property stemmed from a substantial year-on-year rate of increase of 33,3 per cent recorded in security transfer tax alongside a robust increase of 11,0 per cent recorded in transfer duties. Higher collections from security transfer tax mirrored the vibrant economic activity in the capital market.

Proceeds from taxes on goods and services recovered in the latter part of the 2015/16 fiscal year, bringing the overall year-on-year rate of increase to 8,2 per cent. While this tax category is dominated by value-added tax (VAT), the general fuel levy and excise duties also make significant contributions. Domestic VAT receipts were adversely affected by a contraction in the real output of the manufacturing sector alongside subdued consumption spending. Import VAT increased briskly throughout the fiscal year, with firm import quantities and rising rand values of imports arising from the weaker exchange value of the rand.

Import duties collected increased considerably in fiscal 2015/16 when compared with fiscal 2014/15. Strong collections in this tax category were boosted by the depreciation of the domestic currency against other major currencies alongside increases in tariff rates on a number of products. Non-tax revenue accelerated sharply by 117,4 per cent year on year, owing to the sale of Vodacom shares during the fiscal year.

Revenue of national government



The net result of national government revenue and expenditure was a cash-book deficit of R175 billion in fiscal 2015/16. This cash-book deficit was R0,7 billion higher than the cash-book deficit recorded in fiscal 2014/15 and also around R2 billion more than originally budgeted for in the *Budget Review 2015*. Relative to GDP, the cash-book deficit reached 4,3 per cent in fiscal 2015/16, slightly lower than the 4,5 per cent recorded in the same period a year earlier.

Cumulative deficit of national goverment

17 The deficit/surplus calculated by excluding interest payments from total expenditure.

The primary balance[17] recorded a deficit of R46,5 billion in fiscal 2015/16, or 1,1 per cent of GDP, relative to a primary deficit of R59,8 billion, or 1,5 per cent of GDP, registered in the previous fiscal year.

The cash-flow deficit of national government amounted to R149 billion in fiscal 2015/16, marginally lower than the R150 billion recorded in the previous fiscal year. After taking into account the cost on revaluation of foreign debt at maturity, the net borrowing requirement of national government amounted to R151 billion – some R4,9 billion lower than the net borrowing requirement recorded in the preceding fiscal year.

National government financing in fiscal 2015/16

R billions

Item or instrument	Actual Full 2014/15	Originally budgeted Full 2015/16[1]	Actual Full 2015/16
Deficit[2]	**150,2[3]**	**173,1**	**149,1[3]**
Plus: Cost/profit on revaluation of foreign debt at redemption[4]	5,5	1,4	1,5
Net borrowing requirement	**155,5**	**174,4**	**150,6**
Treasury bills	9,6	13,0	13,1
Domestic government bonds	143,5	144,8	128,1
Foreign bonds and loans	13,8	9,2	-2,4
Change in available cash balances[5]	-11,5	7,4	11,7
Total net financing[6]	**155,5**	**174,4**	**150,6**

1 *Budget Review 2015*
2 Including extraordinary receipts and payments
3 Cash-flow deficit which differs from the budgeted cash-book deficit
4 Cost + profit -
5 Increase – decrease +
6 Components may not add up to totals due to rounding

Given South Africa's deep and liquid capital market, the appetite for domestic debt instruments remained satisfactory. As reflected in the accompanying table, the borrowing requirement was predominantly financed through the issuance of domestic government bonds and Treasury bills. During 2015/16, national government funding in these categories was well aligned with the originally budgeted estimates.

Net inflation-linked bond issuances to the value of R50,4 billion were recorded in fiscal 2015/16, bringing the total outstanding balance for these instruments to R409 billion as at the end of March 2016. These bonds accounted for 26,0 per cent of total domestic marketable bonds. Net issuances of RSA Government Retail Savings Bonds to the value of R1,0 billion were recorded in fiscal 2015/16, compared with the net redemption of R0,5 billion in 2014/15.

In fiscal 2015/16, Treasury bills were issued at an average interest rate of 6,5 per cent, whereas conventional bonds attracted an average yield of 8,6 per cent. Inflation-linked bonds attracted an average real yield of 1,8 per cent per annum. Between March 2015 and March 2016, the average remaining maturity of national government's domestic marketable bonds increased from 170 months to 179 months.

Net redemptions to the value of R2,4 billion were recorded in foreign bonds and loans in fiscal 2015/16. No foreign bonds were issued in fiscal 2015/16 owing to unfavourable financial market conditions. As a result, the average outstanding maturity of foreign marketable bonds of national government decreased from 115 months at the end of March 2015 to 102 months at the end of March 2016. Although no foreign bonds were issued in fiscal 2015/16, in April 2016 national government successfully issued a US$1,25 billion ten-year bond in the international capital markets, raising R18,2 billion. The US dollar bond was priced at a coupon rate of 4,875 per cent.

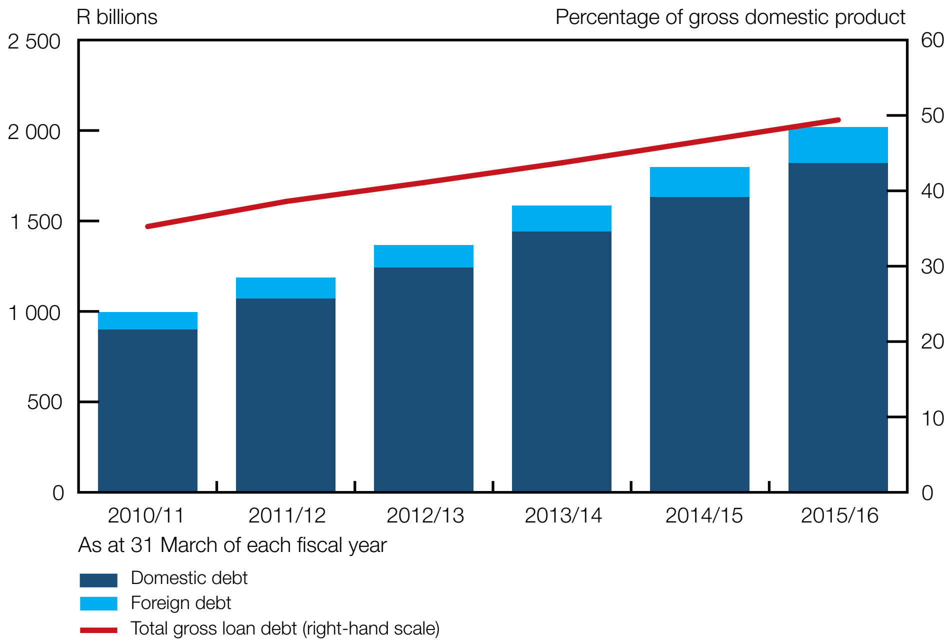
National government's available cash balances declined by R11,7 billion in 2015/16, bringing these balances to R206 billion at the end of March 2016. Deposits with the Bank amounted to R161 billion at the end of March 2016, down from R165 billion at the end of March 2015. The remaining balances are held with commercial banks.

Domestic debt of national government increased from R1 632 billion at the end of March 2015 to R1 819 billion at the end of March 2016. The increase was on account of strong growth in the issuance of domestic marketable bonds, accompanied by a steady rise in Treasury bills. Domestic debt accounted for 90,1 per cent of total gross loan debt as at 31 March 2016. Relative to GDP, domestic debt increased from 42,2 per cent at the end of March 2015 to 44,5 per cent at the end of March 2016. This was in line with the 44,8 per cent revised projection in the *Budget Review 2016*.

Foreign debt of national government increased from R167 billion at the end of March 2015 to R200 billion at the end of March 2016. The increase was almost entirely on account of revaluation effects arising from the depreciation of the domestic currency against other major currencies, as there were no issuances during fiscal 2015/16. Foreign debt, which accounts for 9,9 per cent of the government's total gross loan debt, was 4,9 per cent of GDP at the end of fiscal 2015/16 compared to 4,3 per cent recorded at the end of fiscal 2014/15.

Total gross loan debt of national government increased from R1 799 billion to R2 019 billion between March 2015 and March 2016. This was higher than the originally budgeted amount of R1 983 billion in the *Budget Review 2015*, but slightly lower than the revised estimate of R2 056 billion in the *Budget Review 2016*. As a ratio of GDP, total gross loan debt rose from 46,6 per cent to 49,4 per cent between these respective periods, with the end value slightly below the 50,5 per cent envisaged in the *Budget Review 2016*.

Total gross loan debt of national government



Statement of the Monetary Policy Committee

17 March 2016

Issued by Lesetja Kganyago, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee in Pretoria

Since the previous meeting of the Monetary Policy Committee (MPC), headline inflation has exceeded the upper end of the target range as pressures from higher food prices in particular have intensified. Although the longer-term inflation outlook has improved somewhat, inflation is still expected to remain outside the target range for an extended period, and upside risks remain. The domestic economic growth prospects remain fragile following a fairly broad-based weakening in the final quarter of last year, while global economic prospects remain uncertain.

The year-on-year inflation rate as measured by the consumer price index (CPI) for all urban areas increased markedly in January to 6,2 per cent, up from 5,2 per cent in December. Food price pressures intensified, with food and non-alcoholic beverages inflation accelerating to 6,9 per cent, up from 5,9 per cent previously. Goods price inflation increased from 4,6 per cent to 6,5 per cent, mainly due to higher food prices and base effects of petrol prices, while services price inflation increased from 5,7 per cent to 6,0 per cent. The Bank's measure of core inflation, which excludes food, fuel and electricity, which had been relatively stable for some time, increased from 5,2 per cent in December to 5,6 per cent in January. Part of this may reflect some evidence of higher exchange rate pass-through.

Producer price inflation for final manufactured goods was also indicative of increased cost pressures, having increased from 4,8 per cent in December 2015 to 7,6 per cent in January. The main contributor to this acceleration was the category of food, beverages and tobacco products which contributed 2,8 percentage points to the January outcome.

The latest inflation forecast of the Bank has improved somewhat but, nevertheless, the protracted, albeit lower, breach remains a serious concern. Inflation is now expected to average 6,6 per cent and 6,4 per cent in 2016 and 2017 respectively, compared with 6,8 per cent and 7,0 per cent previously. The forecast period has been extended to the end of 2018, and the forecast average for that year is 5,5 per cent. Inflation is expected to peak at 7,3 per cent in the fourth quarter of 2016, down from 7,8 per cent previously, and to return to within the target range, to 5,5 per cent, during the fourth quarter of 2017. Inflation is then expected to remain within the target range for the rest of the forecast period. These changes are due in part to the higher interest rate assumption following the increase in the repurchase (repo) rate at the previous meeting, a slightly less depreciated exchange rate assumption, and downward revisions to the international oil price and electricity tariff assumptions. The latter follows the National Energy Regulator of South Africa's (NERSA) decision to grant a lower-than-expected tariff adjustment of 9,4 per cent to Eskom. These pressures are counteracted to some extent by a higher food price forecast.

The forecast for core inflation reflects a marginal near-term deterioration, reflecting expected exchange rate and wage cost pressures, but is slightly improved for 2017. Core inflation is expected to breach the upper end of the target range in the second quarter of 2016 for four consecutive quarters, with a peak at 6,5 per cent in the third and fourth quarters of 2016. This measure is expected to average 6,2 per cent in 2016, and 5,7 per cent and 5,2 per cent in the subsequent two years.

The survey of inflation expectations conducted by the Bureau for Economic Research in the first quarter of 2016 presents a mixed picture. Although average expectations remain unchanged at 6,2 per cent for 2016 and 2017, those of analysts increased significantly, while expectations of business people and trade unions moderated for both years. Inflation is expected to average 6,0 per cent in 2018, with both analysts and trade unionists expecting inflation to be within the target range. The five-year average inflation expectations remained unchanged at 6,1 per cent and have been stable within a range of between 5,8 per cent and 6,2 per cent since the first quarter of 2012.

The near-term expectations of economic analysts as reflected in the Reuters Econometer survey also increased following the depreciation of the rand in December. In the survey conducted in March, the median expectation for 2016 and 2017 was 6,4 per cent and 6,3 per cent respectively, but inflation is expected to return to within the target range in 2018 at a 5,6 per cent average. Bond market expectations implicit in the break-even inflation rates are more or less unchanged since the previous meeting and remain at fairly elevated levels.

The international economic outlook remains challenging following a marked decline in global growth in the fourth quarter of 2015 as well as a continued moderation in industrial production in the advanced economies. This included a slowdown in the United States (US) amid contractions in business fixed investment and exports, and a weakening in consumer spending. Some improvement is expected in the first quarter, although growth is expected to remain below potential in the coming months. Subdued growth is expected in the Japanese economy following a contraction in the fourth quarter, with only a slightly more favourable outlook for the euro area and the United Kingdom.

The outlook for many emerging-market economies remains weak, with continuing recessions in Brazil and Russia. The slowdown in China appears to be broad-based, with a declining Purchasing Managers' Index (PMI), moderating consumer demand, and lower imports and exports. The uncertain prospects for China remain a source of intense speculation and uncertainty for the rest of the global economy.

There are few signs of global inflation pressures, with inflation below target in most advanced economies, particularly in Japan and the euro area. These trends, combined with slowing growth, have prompted looser monetary policies in a number of advanced economies, and accommodative policies are likely to persist. Contrary to this trend, the US Federal Reserve is expected to continue on its normalisation path, but at a gradual pace. By contrast, exchange-rate-induced inflationary pressures persist in a number of emerging economies, particularly in Latin America, where more sustained tightening can be expected.

The rand exchange rate has recovered somewhat from the lows experienced in December and January, but nevertheless remains highly volatile and vulnerable to domestic and external developments. Since the previous meeting of the MPC, the rand traded in a wide range of between around R16,40 and R15,07 against the US dollar, and has appreciated by 4,5 per cent against the US dollar, by 0,9 per cent against the euro, and by 2,0 per cent on a trade-weighted basis.

A number of factors contributed to the appreciation of the rand during this period. These included the reaction to further monetary policy easing in the advanced economies, and the moderation of the US normalisation path; policy stimulus measures in China which overshadowed disappointing Chinese economic data; and the reaction to domestic monetary tightening. Offsetting factors included the weak domestic growth outcome and higher inflation outlook; the increased risk of a sovereign ratings downgrade; and domestic political developments which have had a significant impact on the rand in the past few days in particular.

The exchange rate was also negatively impacted by the wider-than-expected current-account deficit and its slow pace of adjustment to a depreciated exchange rate. The adjustment is expected to remain slow, particularly in the context of declining global trade. While the current account was adequately financed in the fourth quarter of 2015, the lack of portfolio capital flows remains a concern, despite expectations of some improvement of flows to emerging markets in 2016. According to JSE Limited (JSE) data, since the beginning of the year, non-residents have been net purchasers of bonds to the value of around R6 billion, but net sellers of South African equities to the value of around R20 billion.

The domestic economic growth outlook has deteriorated further. Annual economic growth of 1,3 per cent in 2015 was in line with the Bank's expectations, but the forecasts for 2016 and 2017 have been revised down from 0,9 per cent and 1,6 per cent to 0,8 per cent and 1,4 per cent respectively. Growth of 1,8 per cent is forecast for 2018. The potential output growth estimate remains unchanged at 1,5 per cent, rising to 1,8 per cent by 2018. The weak growth trend remains consistent with the Bank's leading business cycle indicator which declined further in December. Although the Rand Merchant Bank/Bureau for Economic Research (RMB/BER) business confidence index was unchanged in the first quarter, it remained at its five-year low and masked a collapse in the manufacturing confidence index.

The gross domestic product (GDP) slowdown was fairly broad-based, with contractions in the agriculture, manufacturing, and transport and communications sectors. The outlook for the first quarter for mining and manufacturing is constrained, following sharply negative growth rates in both sectors in January, particularly in mining. Although the Barclays PMI increased marginally in February, it remained below the neutral 50-point level for the seventh consecutive month, and capacity utilisation in the sector also remains relatively low. The continuing drought also points to an unfavourable outlook for the agricultural sector.

While growth in expenditure on gross fixed capital formation improved in the final quarter of 2015, it remains low at an annual growth rate of 1,4 per cent. Although capital expenditure by the private sector turned positive in the fourth quarter, it was concentrated in the renewable energy sector, while in most other sectors real capital investment contracted. These growth and investment trends create an unfavourable climate for making inroads into the unemployment rate which increased marginally to 24,5 per cent in the fourth quarter of 2015 from 24,3 per cent a year earlier.

Growth in consumption expenditure by households increased in the final quarter of 2015, but at 1,6 per cent was still at relatively low levels. While retail sales growth on a year-on-year basis was fairly resilient, the consecutive month-to-month contractions in real retail trade sales growth in December and January could signal further pressures on consumption expenditure, consistent with the low levels of consumer confidence. Total new vehicle sales continue to decline although, more positively, there was strong vehicle export growth in February.

A number of factors are expected to constrain consumption expenditure despite the persistence of wage and salary increases in excess of inflation. These factors include rising inflation and higher interest rates, high levels of household debt, and negative wealth effects from low or negative asset price growth. Furthermore, credit extension to households by the banking sector remains subdued, in contrast to the more vibrant growth in credit extension to the corporate sector, particularly with respect to mortgage advances on commercial properties and renewable energy investments.

The recent budget tabled in parliament provides for a fiscal consolidation path which sees the consolidated government budget deficit declining from an estimated 3,2 per cent of GDP in 2016/17 to 2,4 per cent in 2018/19. This is expected to be achieved through a combination of a lower expenditure ceiling and increased tax revenues. This path, if realised, can be expected to moderate inflation somewhat while improving South Africa's credit metrics and confidence in general.

Food price pressures, driven by the drought and the depreciated exchange rate, have intensified by more than previously forecast and remain a significant upside risk to inflation. Manufactured food price inflation measured 7,8 per cent in the producer price index (PPI), while agricultural prices increased by 25,9 per cent, with cereals and other crops increasing by 79,2 per cent. These increases are expected to impact with a lag on consumer prices. Annual CPI food price inflation is now expected to peak at 11,6 per cent in the final quarter of 2016, compared with 11,3 per cent previously.

International oil prices have recovered somewhat from their lows of below US$30 per barrel seen in January as the global oversupply appears to have subsided in the wake of production cutbacks in a number of countries. Although the Bank has reduced its oil price assumption for the forecast period, it still assumes an upward trajectory as in the previous forecast. However, there is some upside risk to this forecast, should some agreement on an output freeze be reached by some of the larger producers. The domestic petrol price was reduced by about 69 cents per litre earlier this month, to its lowest level since March 2015. However, the current under-recovery, driven mainly by higher international product prices, suggests that this decline could be substantially reversed in April. This increase will be in addition to the 30 cent per litre increase in the fuel levy announced in the budget.

Although the inflation forecast has improved moderately since the previous meeting of the MPC, the Committee remains concerned about the protracted nature of the breach of the target. Furthermore, the Committee assesses the risks to the forecast to be on the upside. The main risk factors relate to the exchange rate and food prices. The exchange rate of the rand continues to be highly volatile and vulnerable to changes in both domestic and external developments. While the pass-through from the exchange rate to inflation is still relatively low, there are signs that this may be increasing.

Food prices have been accelerating faster than previously expected due to the weaker exchange rate and the intensification of the drought, resulting in an upward revision to the food price forecast. The Committee views the risks to this forecast to be on the upside, particularly for 2017 when fairly strong favourable base effects are expected. A more protracted drought, combined with a weaker exchange rate and restocking of herds, may keep food price inflation elevated for a longer period than currently forecast. The Committee also assesses the risks to the international oil price assumption to be on the upside.

The MPC is cognisant of the fact that demand pressures on inflation remain subdued, and indications are that household consumption expenditure is likely to remain constrained. Nevertheless, the recent increase in core inflation and its expected upward trend is indicative of broader inflationary pressures and possible second-round effects from supply-side shocks. While the evolution of inflation expectations is critical in this regard, at this stage there is no clear evidence of a deterioration in longer-term inflation expectations, but they remain at an elevated level.

The Committee remains concerned about the weak growth outlook amid negative business and consumer confidence. The growth challenges facing the economy are compounded by the deteriorating outlook for global growth. The Committee assesses the risk to the growth outlook to be on the downside.

Given the upside risks to the inflation forecast and the protracted period of the expected breach, the MPC decided that further tightening was required to complement the previous moves. Accordingly, the MPC decided to increase the repurchase rate by 25 basis points to 7,00 per cent per annum, effective from 18 March 2016. Three members favoured a 25 basis point increase while three members preferred no change. Ultimately, the Committee decided on an increase.

The Committee faced the continuing dilemma of a deteriorating inflation environment and a worsening growth outlook. The MPC remains sensitive to the possible negative effects of policy tightening on cyclical growth, but will remain focused on its mandate of maintaining price stability.

Summary of assumptions: Monetary Policy Committee meeting on 17 March 2016*

1. Foreign-sector assumptions

Percentage changes (unless otherwise indicated)	Actual			Forecast		
	2013	2014	2015	2016	2017	2018
1. Real GDP growth in South Africa's major trading-partner countries...	3,0%	3,1%	2,8%	2,8%	3,2%	3,5%
			(2,8%)	(2,9%)	(3,3%)	
2. International commodity prices in US$ (excluding oil)........................	-6,4%	-9,8%	-19,3%	-13,2%	2,0%	3,0%
			(-19,3%)	(-15,0%)	(1,0%)	
3. Brent crude (US$/barrel)	108,8	99,2	52,5	37,0	45,0	50,5
			(52,5)	(41,0)	(50,0)	
4. World food prices (US$)	-1,6%	-3,8%	-18,7%	-3,0%	2,0%	3,0%
			(-18,5%)	(-2,8%)	(2,7%)	
5. International wholesale prices...	0,3%	-0,1%	-3,5%	-1,5%	0,8%	1,0%
			(-3,4%)	(-1,0%)	(1,0%)	
6. Real effective exchange rate of the rand (index 2010 = 100)	81,91	79,17	80,08	71,27	71,27	71,27
			(80,06)	(70,45)	(70,45)	
7. Real effective exchange rate of the rand..	-10,1%	-3,3%	1,1%	(-11,0%)	0,0%	0,0%
			(1,1%)	(-12,0%)	(0,0%)	

2. Domestic-sector assumptions

Percentage changes (unless otherwise indicated)	Actual			Forecast		
	2013	2014	2015	2016	2017	2018
1. Real government consumption expenditure	3,3%	1,9%	0,3%	1,5%	1,0%	1,0%
			(0,3%)	(1,5%)	(1,5%)	
2. Administered prices...	8,7%	6,7%	1,7%	5,3%	8,4%	8,7%
			(1,7%)	(8,0%)	(9,9%)	
– Petrol price	11,8%	7,2%	-10,7%	0,0%	10,2%	9,4%
			(-10,7%)	(7,9%)	(12,4%)	
– Electricity price..	8,7%	7,2%	9,4%	10,1%	9,5%	10,0%
			(9,4%)	(12,2%)	(13,0%)	
3. Potential growth...	2,1%	1,8%	1,6%	1,5%	1,6%	1,8%
			(1,6%)	(1,5%)	(1,6%)	
4. Repurchase rate (per cent)...	5,00	5,57	5,89	6,71	6,75	6,75
			(5,89)	(6,25)	(6,25)	

The figures in brackets represent the previous assumptions of the Monetary Policy Committee.
* For an explanation of foreign-sector assumptions and domestic-sector assumptions, see pages 84 and 85.

Selected forecast results: Monetary Policy Committee meeting on 17 March 2016

Selected forecast results (quarterly)

Year-on-year percentage change	Actual					Forecast														
	1	2	3	4	2015	1	2	3	4	2016	1	2	3	4	2017	1	2	3	4	2018
1. Headline inflation............................	4,2	4,6	4,7	4,9	4,6	6,4	6,0	6,6	7,3	6,6	7,1	6,9	6,1	5,5	6,4	5,4	5,5	5,6	5,7	5,5
				(4,9)	(4,6)	(6,2)	(6,1)	(7,0)	(7,8)	(6,8)	(7,8)	(7,3)	(6,7)	(6,2)	(7,0)					
2. Core inflation..................................	5,7	5,6	5,3	5,2	5,5	5,7	6,1	6,5	6,5	6,2	6,4	6,0	5,3	5,0	5,7	5,0	5,2	5,2	5,3	5,2
				(5,2)	(5,5)	(5,4)	(5,9)	(6,3)	(6,4)	(6,0)	(6,4)	(6,1)	(5,7)	(5,5)	(5,9)					

The figures in brackets represent the previous forecasts of the Monetary Policy Committee.

Selected forecast results (annual)

Per cent	Actual			Forecast		
	2013	2014	2015	2016	2017	2018
1. Real gross domestic product (GDP) growth	2,2%	1,5%	1,3%	0,8%	1,4%	1,8%
			(1,3%)	(0,9%)	(1,6%)	
2. Current account as a ratio to nominal GDP.............................	-5,8	-5,4	-4,4	-4,6	-4,7	-4,9
			(-4,2)	(-5,2)	(-5,3)	

The figures in brackets represent the previous forecasts of the Monetary Policy Committee.

Statement of the Monetary Policy Committee

19 May 2016

Issued by Lesetja Kganyago, Governor of the South African Reserve Bank, at a meeting of the Monetary Policy Committee in Pretoria

South Africa's inflation and growth dynamics continue to highlight the policy dilemma facing monetary policy. Although headline consumer price index (CPI) inflation has moderated since February, the respite is expected to be temporary as food and petrol price pressures continue to intensify. The recovery in the rand exchange rate in April also proved to be short-lived, as both domestic and external factors weighed on the currency. At the same time, domestic economic growth continues to disappoint. While there are signs that the economy may be reaching the low point in the growth cycle, the recovery is expected to be slow with downside risks. Global economic growth and financial market conditions have stabilised somewhat since the previous Monetary Policy Committee (MPC) meeting, but a high degree of risk and uncertainty persists.

The year-on-year inflation rate as measured by the CPI for all urban areas moderated after reaching a recent high of 7,0 per cent in February. In March and April 2016, CPI inflation measured 6,3 per cent and 6,2 per cent respectively. Food price pressures continued unabated, with food and non-alcoholic beverages inflation accelerating to 11,0 per cent in April, up from 9,5 per cent previously. Goods price inflation moderated from 6,9 per cent to 6,7 per cent, while services price inflation was unchanged at 5,7 per cent. The Bank's measure of core inflation, which excludes food, fuel and electricity measured 5,5 per cent, up from 5,4 per cent in March. While the impact of the weaker exchange rate remains relatively low, there are indications of increased pass-through in some categories, particularly new motor vehicles and appliances.

Producer price inflation for final manufactured goods moderated significantly from 8,1 per cent in February to 7,1 per cent in March, mainly as a result of a sharp fall in fuel prices. Manufactured food product price inflation accelerated to 10,5 per cent, with the food, beverages and tobacco products category contributing 3,1 percentage points to the March outcome. Agricultural prices increased by 23,1 per cent in March, with cereal and other crop prices increasing by 50,0 per cent year on year.

The latest inflation forecast of the Bank shows a moderate near-term deterioration compared with the previous forecast, but there is some improvement in the medium- term outlook. The breach of the upper end of the target range, while still protracted, is now slightly shorter, with inflation expected to fall within the range during the third quarter of 2017. Inflation is now expected to average 6,7 per cent in 2016 compared with 6,6 per cent previously forecast. In 2017 and 2018 inflation is expected to average 6,2 per cent and 5,4 per cent respectively, marginally down from the previous forecast. The expected peak, at 7,3 per cent in the fourth quarter of 2016, is unchanged. The downward revisions are due in part to the higher interest rate assumption, a slightly less depreciated exchange rate assumption, a wider output gap and a lower electricity price assumption. These pressures are counteracted to some extent by a higher near-term food price forecast and the impact of upward revisions to the international oil price assumptions.

The forecast for core inflation is slightly improved, with a lower forecast for 2016 of 5,9 per cent from 6,2 per cent previously. Forecasts for 2017 and 2018 are unchanged at 5,7 per cent and 5,2 per cent respectively. Core inflation is expected to breach the upper end of the target range in the third quarter of 2016 for four consecutive quarters, with a peak of 6,2 per cent (previously 6,5 per cent) in the third and fourth quarters of 2016 and the first quarter of 2017.

The Bureau for Economic Research's (BER) survey of inflation expectations is only due for release in July 2016. The median expectations of economic analysts, as reflected in the Reuters Econometer survey conducted in May, are more or less unchanged compared with the previous survey, and are slightly higher than those of the Bank for 2016 and 2017. In the latest survey, the median expectations for 2016 and 2017 were 6,7 per cent and 6,4 per cent respectively, with inflation expected to be within the target range in 2018 at an average of 5,7 per cent. Bond market expectations implicit in the break-even inflation rates are more or less unchanged since the previous meeting and remain at fairly elevated levels.

Global growth remains hesitant following a disappointing first quarter in the United States (US) and the United Kingdom (UK) in particular. While labour market conditions in the US have improved, low corporate profits have constrained investment. However, consensus forecasts show that a moderate improvement is expected in the coming months, but at a lower rate than previously expected. The outlook for the UK is clouded by the possibility of an exit from the European Union (EU), while the prospects for the Japanese economy remain uncertain. By contrast, the growth outlook in the euro area is more promising, driven by improvements in Germany and France in particular, although there are concerns that the recent momentum may be fading.

Divergent prospects are evident in the emerging markets. Russia and Brazil remain in recession, but there are signs of some stabilisation in China as the economy appears to be responding to government policy initiatives. This improvement, along with a weaker US dollar, has resulted in some recovery in commodity prices as well as a pickup in portfolio flows to emerging markets. Of some concern is the persistent deterioration in growth forecasts for sub-Saharan Africa, which includes some of South Africa's important trading partners. The region is now expected to underperform the global economy in 2016, for the first time in 16 years, as the effects of lower commodity prices and drought take their toll.

Global inflation pressures remain benign, with low energy prices still having an impact, although this effect is likely to dissipate with the recent upward trend in oil prices. The latest data show declining prices in the euro area and Japan, and low inflation in the US and the UK. Inflation has remained relatively higher in a number of Latin American economies, particularly those experiencing currency depreciation. As a result of these trends, asynchronous monetary policies persist. While policies are generally accommodative amid subdued growth, particularly in many advanced economies, a number of emerging markets have maintained a tightening bias in response to inflation pressures. The US Federal Reserve (Fed) is expected to continue with its slow pace of policy rate normalisation but there is a high degree of uncertainty regarding the timing of the next increase.

The rand exchange rate has remained volatile, and following a few weeks of relative strength has resumed a weakening path, and continues to pose an upside risk to the inflation outlook. Since the previous meeting of the MPC, the rand has traded in a range of between R14,20 and R15,90 against the US dollar, and has depreciated by 1,5 per cent against the dollar, by 0,9 per cent against the euro, and by 1,2 per cent on a trade-weighted basis.

During this period the rand was initially favourably impacted by improved commodity prices, the narrower trade balance, and expectations of a slower pace of US Fed monetary policy tightening. However, these gains were reversed as global growth concerns resurfaced in early May and other domestic factors, including the low growth outlook, concerns about a possible ratings downgrade and, more recently, heightened political uncertainty impacted adversely on the currency.

Although the capital flow environment for emerging markets has improved recently, this has not applied to equity flows. South Africa's experience has mirrored this, but with stronger equity outflows. According to the JSE Limited, since the beginning of the year, net sales of domestic equities by non-residents have amounted to R56 billion. By contrast, non-residents have been net purchasers of domestic government bonds (year-to-date R23 billion), although the past two weeks have seen net sales.

The domestic economic growth outlook remains weak, with the Bank's gross domestic product (GDP) growth forecast for 2016 revised down from 0,8 per cent to 0,6 per cent. While a recovery is still expected in the next two years, the forecasts for both these years have been revised down by a 0,1 percentage point to 1,3 per cent and 1,7 per cent in 2017 and 2018 respectively.

With the estimates of potential output unchanged, the output gap is expected to widen over the forecast period. The Bank's leading indicator of economic activity continued its downward trajectory in February, consistent with the constrained outlook.

Recent high-frequency data paint a particularly bleak picture of the first quarter of this year, following a sharp contraction in mining output, minimal growth in the manufacturing sector, and declines in electricity production and consumption. While the Bank's forecast for GDP growth in the quarter is barely positive, it does represent the low point of the forecast, and a slow upward trend is expected going forward. This view is consistent with the favourable developments in the Barclays Purchasing Managers' Index (PMI) which has recovered fairly strongly to above the neutral 50-point level for the past two months. The real value of building plans passed, particularly non-residential, increased markedly on a 3-month-to-3-month basis, indicative perhaps of some life in the construction sector, despite very low levels of business confidence in the sector.

However, while the recent modest recovery in commodity prices may impact positively on mining output, prices remain low and the sector remains beset by higher input costs and regulatory uncertainty. The continuing drought is also expected to put further strain on the agricultural sector.

The economic slowdown is also reflected in labour market trends, with the unemployment rate rising to 26,7 per cent in the first quarter of 2016, from 26,4 per cent a year earlier. Although employment growth was positive over the year to the first quarter, the year-on-year growth rate moderated significantly, with employment losses recorded in a number of sectors, including manufacturing, agriculture and transport.

Household consumption expenditure also remains subdued, with low growth in retail sales in the first quarter. While there was a welcome increase in exports, new vehicle sales also continue to decline. The First National Bank/Bureau for Economic Research (FNB/BER) Consumer Confidence Index recovered to some extent in the first quarter of the year, although it still remains at depressed levels, and indicates a low willingness to spend and utilise credit among consumers.

The constrained outlook for household consumption expenditure is indicative of the absence of demand pressures in the economy. This is also confirmed in the weak wealth effects and the continued slow pace of credit extension to households. Although some improvement has been seen in this regard, growth remains negative in real terms and is mainly related to mortgage advances and general loans, particularly unsecured lending. Growth in credit extension to corporates remains strong, but moderated in March.

Wage growth appears to be moderating, with growth in nominal remuneration per worker in the formal non-agricultural sector declining to below 6 per cent in the fourth quarter of 2015, mainly due to lower private-sector remuneration growth. Once adjusted for labour productivity, growth in unit labour costs remained unchanged at 5,0 per cent in that quarter.

Food prices remain a significant risk to the inflation outlook in the face of persistent drought and exchange rate weakness. These pressures are evident in both the consumer price and producer price indices. Although for some time the MPC had been expecting an acceleration in food price inflation, the recent increases have surprised on the upside, and more aggressive food price increases are now forecast for the near term. The Bank now expects food price inflation to peak at around 12 per cent in the final quarter of this year. However, should food prices stabilise or decline later in the year, there is the potential for downside base effects next year. Futures prices suggest that both maize and wheat prices are expected to remain elevated for the rest of the year, reinforced by a sizeable increase in the domestic wheat import tariff.

The international oil price assumptions in the forecasting model have been increased, with the price of Brent crude oil remaining firmly above the US$40 per barrel level since the second week of April. Demand has surprised on the upside and, despite an increase in supply from

Iran, output has declined in a number of countries. This upward price trend may, however, be contained by high levels of inventories. Domestic petrol prices have increased by a cumulative R1,00 per litre since March, mainly due to higher international prices and an increase in the fuel levy. Should current exchange rate and international oil price trends persist, a further significant increase can be expected in June.

The MPC faced the continuing dilemma of upside risks to the inflation forecast and a worsening growth outlook. The risks to the growth outlook are assessed to be on the downside, particularly in the short term, despite the downward revision to the forecast. Both the mining and agricultural sectors are expected to weigh heavily on the first quarter growth outcome, and the outlook is therefore dependent in part on whether these sectors rebound in the coming quarters.

The Committee remains concerned about the inflation outlook and the extended breach of the target. Although the inflation forecast has shown a moderate improvement over the medium term, the risks are still assessed to be on the upside. The exchange rate remains highly sensitive to domestic political developments and risks of an earlier-than-expected tightening in US monetary policy. The exchange rate implicit in the forecast is stronger than the current level, imparting a significant degree of upside risk. While pass-through from the exchange rate to inflation remains relatively subdued, there are indications that this may be increasing. There is also some upside risk to the international oil price assumption.

The Committee remains concerned that inflation expectations remain at uncomfortably high levels. Although core inflation has remained relatively contained in recent months, with a lower peak now expected, it is forecast to accelerate and exceed the upper end of the inflation target range for four quarters in response to exchange rate and wage pressures.

Some countervailing risks are also evident. While there is a risk that food prices may accelerate faster in the near term, the longer-term forecast assumes that food prices will stabilise by year end, allowing for favourable base effects next year. However, should food prices, particularly grains, decline in response to a normalisation of weather patterns, a much sharper downward food inflation trajectory could transpire. The absence of demand pressures and risks to consumption expenditure growth may also contribute to downside risks.

The increase in the repurchase rate at the previous MPC meeting contributed to the improvement in the longer-term inflation forecast, and that move should be seen in conjunction with previous actions in the cycle and the lagged effects of monetary policy. The MPC felt that there is some room to pause in this tightening cycle and accordingly decided to keep the repurchase rate unchanged for now at 7,0 per cent per annum. Five members preferred no change, while one member preferred a 25 basis point increase.

The MPC remains focused on its inflation mandate, but sensitive to the extent possible to the state of the economy. The MPC will not hesitate to act appropriately should the inflation dynamics require a response, within a flexible inflation-targeting framework. Future moves, as before, will continue to be highly data-dependent.

Summary of assumptions: Monetary Policy Committee meeting on 19 May 2016*

1. Foreign-sector assumptions

Percentage changes (unless otherwise indicated)	Actual			Forecast		
	2013	2014	2015	2016	2017	2018
1. Real GDP growth in South Africa's major trading-partner countries	2,9%	3,1%	2,8%	2,7%	3,1%	3,4%
				2,8%	3,2%	3,5%
2. International commodity prices in US$ (excluding oil)	-6,4%	-9,8%	-19,3%	-9,0%	1,0%	1,5%
				(-13,2%)	(2,0%)	(3,0%)
3. Brent crude (US$/barrel)	108,8	99,2	52,5	42,0	52,0	57,5
				(37,0)	(45,0)	(50,5)
4. World food prices (US$)	-1,6%	-3,8%	-18,7%	-7,4%	2,0%	3,0%
				(3,0%)	(2,0%)	(3,0%)
5. International wholesale prices	0,3%	-0,1%	-3,5%	-1,2%	0,9%	1,1%
				-1,5%	(0,8%)	1,0%
6. Real effective exchange rate of the rand (index 2010 = 100)	81,91	79,17	80,08	74,00	75,00	75,00
				(71,27)	(71,27)	(71,27)
7. Real effective exchange rate of the rand	-10,1%	-3,3%	1,1%	-7,6	1,4%	0,0%
				(-11,0%)	(0,0%)	(0,0%)

2. Domestic-sector assumptions

Percentage changes (unless otherwise indicated)	Actual			Forecast		
	2013	2014	2015	2016	2017	2018
1. Real government consumption expenditure	3,3%	1,9%	0,3%	1,5%	1,0%	1,0%
				(1,5%)	(1,0%)	(1,0%)
2. Administered prices	8,7%	6,7%	1,7%	6,1%	8,5%	8,1%
				5,3%	8,4%	(8,7%)
– Petrol price	11,8%	7,2%	-10,7%	3,8%	11,5%	8,7%
				(0,0%)	(10,2%)	(9,4%)
– Electricity price	8,7%	7,2%	9,4%	10,1%	9,5%	9,0%
				(12,2%)	(13,0%)	(10,0%)
3. Potential growth	2,1%	1,8%	1,6%	1,5%	1,6%	1,8%
				(1,5%)	(1,6%)	(1,8%)
4. Repurchase rate (per cent)	5,00	5,57	5,89	6,71	6,75	7,00
				(6,25)	(6,25)	(6,75)

The figures in brackets represent the previous assumptions of the Monetary Policy Committee.
* For an explanation of foreign-sector assumptions and domestic-sector assumptions, see pages 84 and 85

Selected forecast results: Monetary Policy Committee meeting on 19 May 2016

Selected forecast results (quarterly)

Year-on-year percentage change	Actual					Forecast														
	1	2	3	4	2015	1	2	3	4	2016	1	2	3	4	2017	1	2	3	4	2018
1. Headline inflation	4,2	4,6	4,7	4,9	4,6	6,5	6,4	6,8	7,3	6,7	7,0	6,4	5,8	5,5	6,2	5,4	5,4	5,4	5,5	5,4
				(4,9)	(4,6)	(6,4)	(6,0)	(6,6)	(7,3)	(6,6)	(7,1)	(6,9)	(6,1)	(5,5)	(6,4)	(5,4)	(5,5)	(5,6)	(5,7)	(5,5)
2. Core inflation	5,7	5,6	5,3	5,2	5,5	5,5	5,8	6,2	6,2	5,9	6,2	6,0	5,3	5,1	5,7	5,1	5,1	5,2	5,3	5,2
				(5,2)	(5,5)	(5,7)	(6,1)	(6,5)	(6,5)	(6,2)	(6,4)	(6,0)	(5,3)	(5,0)	(5,7)	(5,0)	(5,2)	(5,2)	(5,3)	(5,2)

The figures in brackets represent the previous forecasts of the Monetary Policy Committee.

Selected forecast results (annual)

Per cent	Actual			Forecast		
	2013	2014	2015	2016	2017	2018
1. Real gross domestic product (GDP) growth	2,2%	1,5%	1,3%	0,6%	1,3%	1,7%
				(0,8%)	(1,4%)	(1,8%)
2. Current account as a ratio to nominal GDP	-5,8	-5,4	-4,4	-4,6	-4,7	-4,9
				(-4,6)	(-4,7)	(-4,9)

The figures in brackets represent the previous forecasts of the Monetary Policy Committee.

Foreign-sector assumptions

1. **Trading-partner gross domestic product** (GDP) growth is determined broadly using the Global Projection Model (GPM) of the International Monetary Fund (IMF), which is then adjusted to aggregate the GDP growth rates of South Africa's major trading partners on a trade-weighted basis. Individual projections are done for the four largest trading partners: the euro area, China, the United States (US) and Japan. The remaining trading partners are grouped into three regions: emerging Asia (excluding China), Latin America, and the Rest of Countries bloc. The assumption takes account of country-specific 'consensus' forecasts as well as IMF regional growth prospects.

2. The **commodity price index** is a weighted aggregate price index of the major South African export commodities based on 2010 prices. The composite index represents the total of the individual commodity prices multiplied by their smoothed export weights. Commodity price prospects generally remain commensurate with global liquidity as well as commodity supply/demand pressures as reflected by the pace of growth in the trading-partner countries.

3. The **Brent crude oil price** is expressed in US dollar per barrel. The assumption incorporates an analysis of the factors of supply, demand (using global growth expectations) and inventories of oil (of all grades) as well as the expectations of the US Energy Information Administration (EIA), the Organization of the Petroleum Exporting Countries (OPEC) and Reuters.

4. **World food prices** uses the composite food price index of the Food and Agriculture Organization of the United Nations (FAO) in US dollar. The index is weighted using average export shares and represents the monthly change in the international prices of a basket of five food commodity price indices (cereals, vegetable oil, dairy, meat and sugar). World food price prospects incorporate selected global institution forecasts for food prices as well as imbalances from the anticipated trend in international food supplies relative to expected food demand pressures.

5. **International wholesale prices** refers to a weighted aggregate of the producer price indices (PPIs) of South Africa's major trading partners, as per the official real effective exchange rate calculation of the South African Reserve Bank (the Bank). Although individual country consumer price index (CPI) inflation forecasts provide a good indication for international wholesale price pressures, the key drivers of the assumed trend in global wholesale inflation are oil and food prices as well as expected demand pressures emanating from the trends in the output gaps of the major trading-partner countries. Other institutional forecasts for international wholesale prices are also considered.

6. The **real effective exchange rate** is the nominal effective exchange rate of the rand deflated by the producer price differential between South Africa and an aggregate of its trading-partner countries (as reflected in the *Quarterly Bulletin* published by the Bank). Although the nominal rate is a weighted average of South Africa's 20 largest trading partners, particular focus is placed on the rand outlook against the US dollar, the euro, the Chinese yuan, the British pound and the Japanese yen. The assumed trend in the real effective exchange rate remains constant from the latest available quarterly average over the projection period. However, due to the time delay in the calculation of the real effective exchange rate, the most recent trend in the nominal effective exchange rate is adjusted with the assumed trend for the domestic and foreign price differential for the current quarter. This may result in a technical annual adjustment over the current and next forecast year that differs from zero.

Domestic-sector assumptions

1. Government consumption expenditure (real) is broadly based on the most recent National Treasury budget projections. However, since these projections take place twice a year, the most recent actual data points also play a significant role in the assumptions process.

2. Administered prices represent the total of regulated and non-regulated administered prices as reflected by Statistics South Africa (Stats SA). Their weight in the consumer price index basket is 18,48 per cent and the assumed trend over the forecast period is largely determined by the expected pace of growth in petrol prices, electricity tariffs, school fees as well as water and other municipal assessment rates.

   The petrol price is an administered price and comprises 5,68 per cent of the overall basket. The basic fuel price (which currently accounts for roughly half of the petrol price) is determined by the exchange rate and the price of petrol quoted in US dollars at refined petroleum centres in the Mediterranean, the Arab Gulf and Singapore. The remainder of the petrol price is made up of wholesale and retail margins as well as the fuel levy and contributions to the Road Accident Fund (RAF). Since most taxes and retail margins are changed once a year, the assumed trajectory of the petrol price largely reflects the anticipated trend in oil prices and the exchange rate.

   The electricity price is an administered price measured at the municipal level with a weight of 4,13 per cent in the CPI basket. Electricity price adjustments generally take place in July and August of each year, and the assumed pace of increase over the forecast period reflects the multi-year price determination (MYPD) by the National Energy Regulator in respect of Eskom, with a slight adjustment for measurement at municipal level.

3. The pace of potential growth is derived from the Bank's semi-structural potential output model. The measurement accounts for the impact of the financial cycle on real economic activity and introduces economic structure via the relationship between potential output and capacity utilisation in the manufacturing sector (see South African Reserve Bank Working Paper Series WP/14/08).

4. The repurchase rate (commonly called the 'repo rate') is the official monetary policy instrument and represents the interest rate at which banks borrow money from the Bank. Although the rate is held constant over the forecast period, this assumption is relaxed in alternative scenarios where, for instance, the policy rate responds to deviations of output from its potential and the gap between future inflation and the inflation target, in other words, via a stylised 'Taylor rule', one that is based on market expectations of the future path of the policy rate, and other paths (as requested).

Note on the flow of funds in South Africa's national financial account for the year 2015

by C Monyela[1]

1 The views expressed are those of the author and do not necessarily reflect the views of the South African Reserve Bank (the Bank). The Bank wishes to express its sincere appreciation to all the reporting organisations – government departments, financial market institutions, and other public- and private-sector institutions – for their cooperation in providing the data used for the compilation of South Africa's financial accounts.

Introduction

Trends in South Africa's national financial account during 2015 were underpinned by an environment of elevated risk in the global financial landscape, deterioration in sovereign and currency risk, low business and consumer confidence levels, and subdued economic activity. On the macroeconomic policy front, the fiscal authorities continued their programme of gradual fiscal consolidation with the containment of non-financial public-sector borrowing needs, while the monetary authorities pursued a tightening stance in the interest rate cycle to stem the deteriorating inflation outlook.

The implications of the above conditions and policy settings for financial flows are outlined in this note through the analysis of sectoral financial positions, cross-sectoral interaction and the choice of different financial instruments. The quarterly national financial accounts for 2015 are attached to this note, while the annual summary is published on pages S–46 to S–47 of this issue of the *Quarterly Bulletin*.

Sectoral financing balances

Sectoral saving, investment and gross capital formation balances are depicted in Table 1. The balances show that in 2015 the economy's gross saving and capital formation were dominated by non-financial corporate business enterprises, underlining the significance of this sector. At R492 billion in 2015, the corporate business enterprises' share of gross saving accounted for 59 per cent of total saving in the economy, while this sector's gross capital formation of R581 billion represented 70 per cent of the total. As shares of gross domestic product (GDP), these amounts accounted for 12 per cent and 14 per cent respectively. The sector's capital outlays continued to grow, augmenting the available stock of capital goods to address certain production constraints while simultaneously generating some demand-side stimulus – at least to the extent that the capital goods are not imported – in a generally subdued economy. This capital formation necessitated a higher incurrence of borrowing by the sector in recent times, especially by the public corporate business enterprises category, whose saving has been much lower than its capital formation.

Table 1 Financing balances,[1, 2] 2015

R millions Surplus units (+)/deficit units (-)

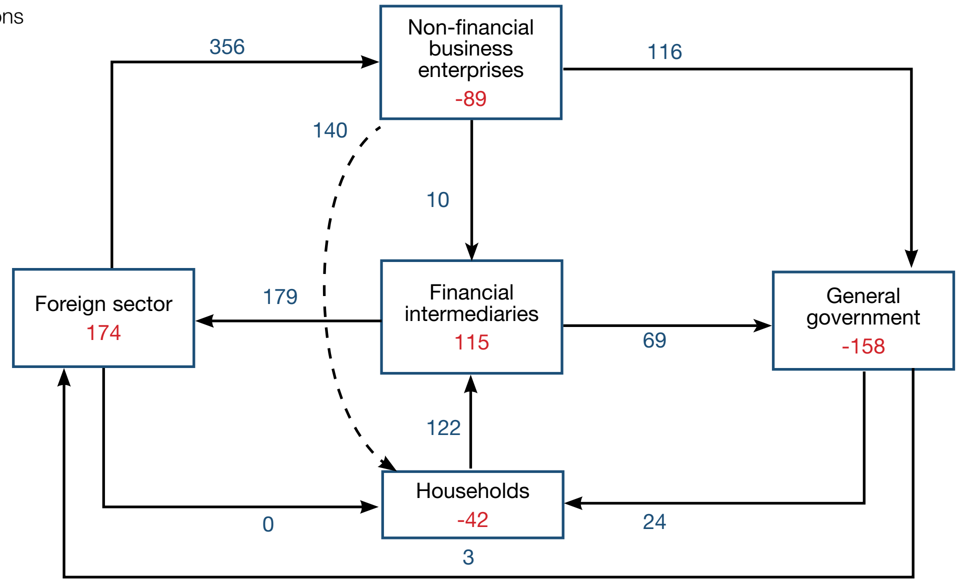
	2015		
	Gross saving	Gross capital formation	Net lending (+)/net borrowing (-)
Foreign sector[3]	174 055	–	174 055
Financial intermediaries	126 656	11 722	114 934
General government	-15 144	142 463	-157 607
Non-financial business enterprises			
Public	63 359	163 927	-100 568
Private	428 961	417 355	11 606
Households[4]	54 158	96 578	-42 420
Total	832 045	832 045	0

1. Gross saving plus net capital transfers less gross capital formation. Gross capital formation consists of fixed capital formation and changes in inventories, before providing for consumption (depreciation) of fixed capital.
2. A positive amount reflects a net lending position and, by implication, the net acquisition of financial assets, whereas a negative amount reflects a net borrowing position and, by implication, the net incurrence of financial liabilities.
3. A positive amount reflects a surplus for the rest of the world and is therefore a deficit on South Africa's current account. A negative amount would represent a deficit for the rest of the world and a surplus on South Africa's current account.
4. Including unincorporated business enterprises and non-profit institutions serving households.

Figure 1 provides a synopsis of the main inter-sectoral flow of funds across the broad sectors of the economy in 2015. It displays the general government's net borrowing position at R158 billion. From a surplus position of R18 billion in 2007, the general government's financing position moved to deficits in the subsequent years, as it sought to counteract the prolonged after-effects of the global financial crisis in the domestic economy and also maintain appropriate levels of spending on infrastructure and service delivery. To finance the shortfall in 2015, general government sourced funding from non-financial business enterprises and financial intermediaries. Conversely, in 2015 non-residents recorded a high net lending position of R174 billion towards the overall domestic economy, notwithstanding the increased intensity of global financial uncertainty and capital flight from many emerging-market economies. Non-residents channelled most of these funds to non-financial business enterprises, enabling them to bridge their shortfall of R89 billion in 2015. In turn, non-residents received R179 billion from financial intermediaries.

Figure 1 Net inter-sectoral flows of funds, 2015

R billions

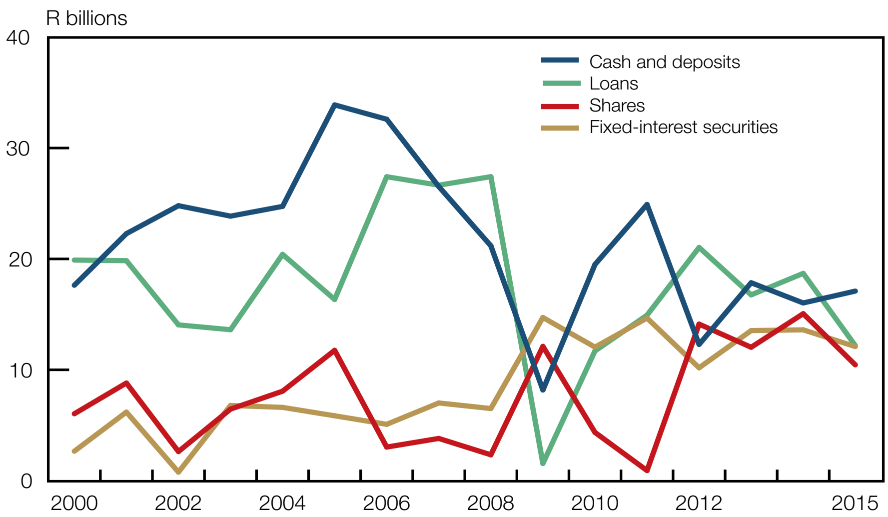


Note: Numbers may not balance perfectly due to rounding. The numbers inside the boxes represent the net lending (+) or borrowing (-) positions of the sectors, and those outside the boxes illustrate inter-sectoral flow of funds and the direction of flows. To calculate the net lending or borrowing position of each sector, inflows are treated as negatives and outflows as positives.

Among the most commonly used financial instruments for intermediation are cash and deposits, loans, fixed-interest securities and shares. Prior to 2009, shares and fixed-interest securities played a significantly less important role, as shown in Figure 2. The usage of cash and deposits averaged 25 per cent of the total flow of funds intermediated over the period 2000 to 2008, whereas loans accounted for 21 per cent. By contrast, shares and fixed-interest securities recorded 6 per cent and 5 per cent respectively. In 2015, the degree of dispersion between the usage of these financial instruments reduced markedly, with the most used instrument, namely cash and deposits, accounting for 17 per cent of total flows, and the least used, ordinary shares, representing a level of 10 per cent.

This trend mirrored an increased participation by general government and corporate business enterprises sectors after the global financial crisis, as they issued a substantial amount of debt and equity securities due to heightened expenditure obligations. In 2015 the usage of loans and market-based financial instruments moderated from the 2014 levels, reflecting stricter lending criteria, subdued income levels and higher investor risk aversion, while cash and deposits increased slightly against the background of a gradual upward interest rate cycle.

Figure 2 Usage of financial instruments: share of total asset flows



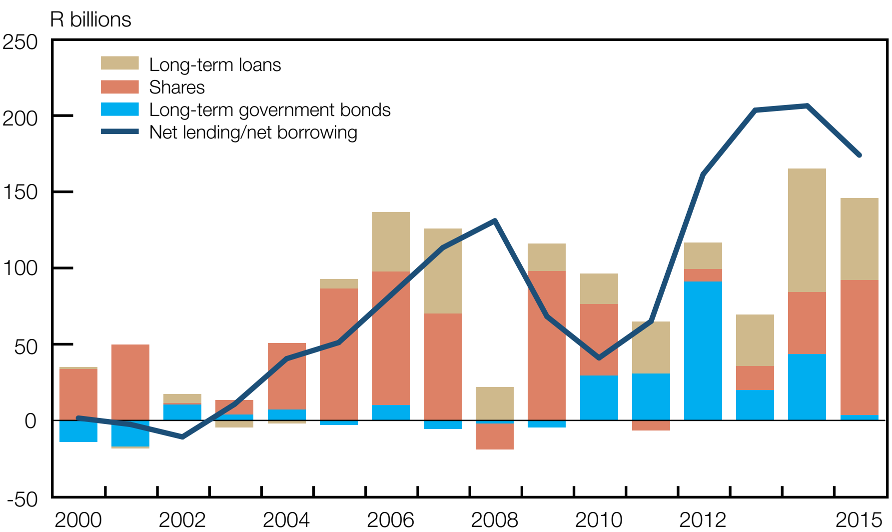
Sectoral analysis

This section analyses how the sources and uses of funds evolved in each of the main institutional sectors during 2015. Sectors with surplus financing positions acquired financial assets, while those with deficit positions accumulated financial liabilities. The choice of financial instruments was influenced by the regulatory environment, institutional investment and funding policies, relative risk-return profiles and macroeconomic policy, among other things.

Foreign sector

Non-residents continued to fund domestic economic sectors in 2015, bridging the collective local financing gap of R174 billion. A mix of financial instruments was used to channel funds to the domestic economy, including shares, bonds and long-term loans. Most of the funds were channelled through shares and long-term loans at R89 billion and R54 billion respectively during 2015. Non-residents continued to invest despite weak domestic economic activity and increased risk aversion towards emerging-market economies in the international investment community.

Figure 3 Inflows from non-residents



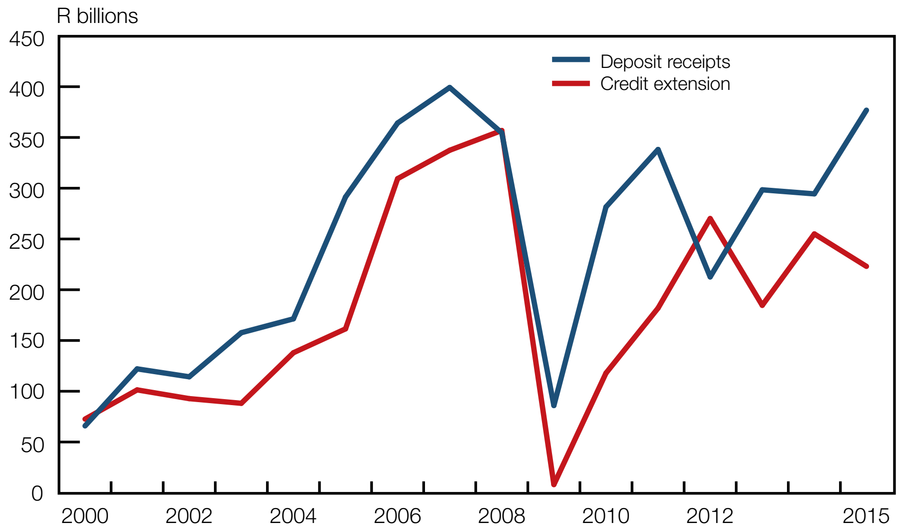
Financial intermediaries[2]

2 Banks and non-bank financial intermediaries.

Financial intermediaries sourced funding largely through deposit-taking of R377 billion and collecting life premiums and pension fund contributions of R88 billion in 2015. As a share of total sectoral flows, these key sources of funding jointly represented 60 per cent. Most of the deposits were received from the private non-financial corporate business enterprises and households. The two sectors also contributed substantially towards life and pension fund receipts, making them a crucial source of funding for financial intermediaries. In turn, financial intermediaries channelled these funds through various financial asset claims, including the acquisition of bonds, shares and credit extension.

The intermediaries acquired bonds worth R261 billion and shares of R144 billion during 2015, enabling the general government and non-financial corporate business sectors to finance their payment commitments. An amount of R249 billion was also channelled through bank loans and advances and mortgage loans, mostly towards non-financial corporate business enterprises and households. However, the overall intermediation through credit extension increased at a slower pace at R223 billion in 2015, down from its level of R255 billion in 2014. At the same time, the intermediaries' official investment in gold and foreign-exchange reserves dwindled over the past few years from a high of R33 billion in 2011, recording a net sale of R9 billion in 2015.

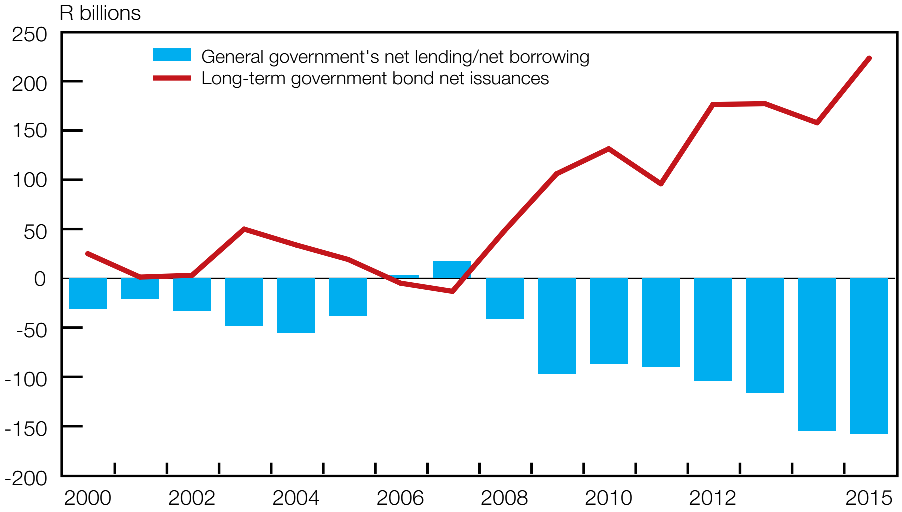
Figure 4 Financial intermediation



General government

In 2015 the general government sector's net borrowing needs increased to R158 billion, from R155 billion a year earlier. Allowing for inflation this entails a significant reduction in real terms in 2015. Consistent with the Minister of Finance's acknowledgement of a tight fiscal space and announcement in the budget speech in February 2016 of plans to reduce unnecessary spending over the medium term, this sector's deficit is expected to narrow further in real terms and as a percentage of GDP. To finance the shortfall in 2015, government raised funds in the domestic market mainly using long-term bonds. The bulk of the R153 billion raised through long-term bond issuances was absorbed by banks, insurers and retirement funds. Over the same period, a net amount of R13 billion in Treasury bills was redeemed.

Figure 5 General government financing



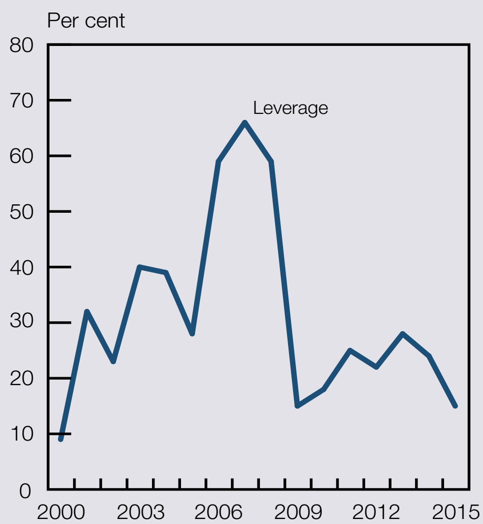
Non-financial corporate business enterprises

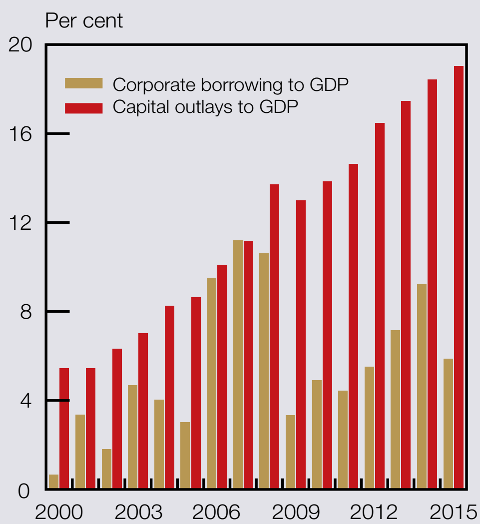
Non-financial corporate business enterprises' net financial position registered a deficit of R89 billion in 2015. The shortfall was mainly financed through the issuance of shares and bonds and the taking up of bank loans and advances. A significant amount was also obtained through mortgage borrowing for commercial property financing. This continued incurrence of more debt by the non-financial corporate business sector augmented its internal funding sources to defray its spending requirements. Capital spending in the electricity, transport and logistics domain, driven mainly by public enterprises, continued to underpin a large part of the net borrowing by this sector.

Box 1 Leverage developments in the non-financial corporate business enterprises sector

As in many other emerging-market economies the local corporate business enterprises' leverage, defined as total borrowing as a ratio of total liability flows, trended upwards after 2009. The corporates' leverage trended higher from 9 per cent in 2000 to a peak of 66 per cent in 2007, which coincided with the overall high indebtedness in the economy during the build-up towards the global financial crisis. It receded to a low of 15 per cent in 2009 in response to the crisis. However, the subsequent domestic monetary policy easing contributed to the resumption of an upward trend in corporate leverage, which reached 28 per cent in 2013 before declining to 15 per cent in 2015. Although inflows through bond issuances surpassed loans in 2015, the latter generally accounted for the bulk of corporate leverage over time.

Corporate business enterprises' leverage and capital outlays



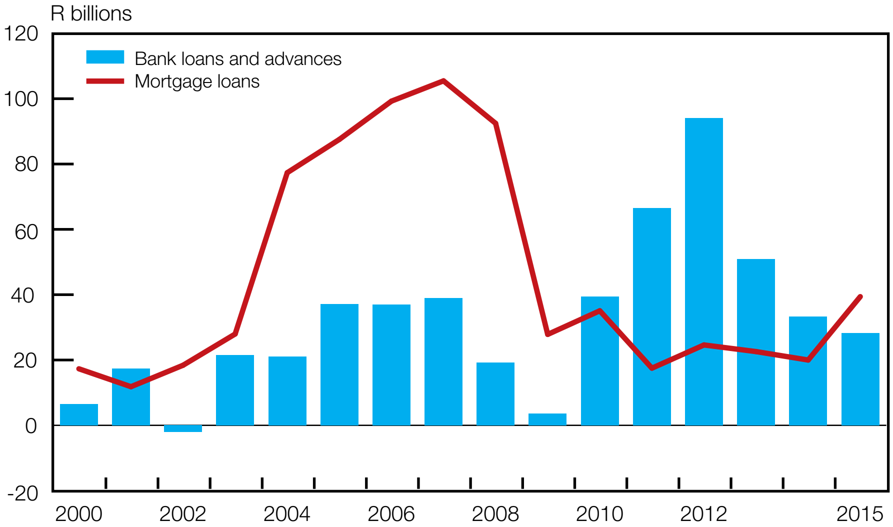


The latest increase in corporate business enterprises' leverage was still below the levels seen before the crisis, but necessary as it partly funded a substantial amount of capital spending, as shown in the graph on the previous page. Furthermore, corporate business enterprises' gross saving level increased markedly to R492 billion in 2015, thereby displaying this sector's operational resilience. As a ratio of gross domestic product, corporate borrowing was 6 per cent in 2015.

Households

The household sector's accumulation of liabilities increased in 2015 as its uptake of loans rose by R76 billion. The composition of household borrowing changed since 2009, with bank loans and advances outstripping mortgage borrowing, in spite of still relatively low interest rates. Among other things, the favourable interest rate environment was countervailed by tighter lending criteria, lower income levels, and greater caution among consumers. This meant that the accumulation of real estate as a key physical wealth-generating asset in the households' balance sheet was very slow, and suggested that other factors, including higher income growth, were needed to reignite households' demand for mortgage borrowing. However, in 2015 mortgage borrowing at R39 billion exceeded bank loans and advances of R28 billion. On the asset side of the balance sheet, households continued to acquire more deposits. However, it was adversely impacted by muted employment gains and an episode of resignation and withdrawal of retirement savings by a number of public servants, owing to misunderstanding and fears related to the 2015 Taxation Laws Amendment Bill.

Figure 6 Household borrowing



Summary and conclusion

The 2015 flow of funds in South Africa reflected a generally subdued economy in need of a more certain global and domestic economic environment with better income prospects. Furthermore, it displayed limited fiscal space necessitating gradual fiscal consolidation rather than countercyclical intervention, and a monetary policy faced with upside inflationary risks against the background of weak economic activity. Below are the highlights of the analysis for the year 2015:

– Foreign-sector inflows continued to augment domestic saving against the backdrop of reduced emerging-market economies inflows.
– Despite some slowdown, credit extension by financial intermediaries remained at high levels, partly due to non-financial corporate business enterprises' uptake of loans.

– The general government sector's net borrowing position remained elevated amid increased spending needs in an environment of slow economic activity.
– Non-financial corporate business enterprises' gross saving and capital formation continued to play a dominant role.
– The household sector's acquisition of mortgage loans improved.

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Flow of funds tables

National financial account

Flow of funds for the first quarter 2015[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	47 688		118		15 661				8 816		4 396	
2. Consumption of fixed capital[4]			16		3 426				430		800	
3. Capital transfers	44	**102**										
4. Gross capital formation[4]				**32**		**1 010**				**262**		**294**
5. Net lending (+)/net borrowing (-) (S)	47 630		102		18 077				8 984		4 902	
6. Net financial investment (+) or (-) (U)		**47 630**		**102**		**18 077**				**8 984**		**4 902**
7. Net incurrence of financial liabilities (Total S 9 – 32)	-50 735		2 482		177 681		30 334		43 174		102 857	
8. Net acquisition of financial assets (Total U 9 – 32)		**-3 105**		**2 584**		**195 758**		**30 334**		**52 158**		**107 759**
9. Gold and other foreign reserves	-12 286			**-12 286**								
10. Cash and demand monetary deposits[5]		**-4 075**	-9 079	**2 164**	33 971	**-5 877**		**-681**		**8 782**		**1 700**
11. Short/Medium-term monetary deposits[5]		**5 356**	277	**15 073**	-10 800			**-15 082**		**-9 406**		**3 047**
12. Long-term monetary deposits[5]		**-1 549**	22	**1 260**	41 678			**3 180**		**958**		**30 263**
13. Deposits with other financial institutions	907	**123**				**7 328**		**3 758**		**-15 100**	7 791	**907**
14. Deposits with other institutions	-3 839					**14 217**	30 334	**-1 910**	-1 910	**25 925**		**28 017**
15. Treasury bills	-1 107			**-101**		**-10 922**				**137**		**-6 418**
16. Other bills	4 623			**8 446**	1 123	**-711**		**-715**		**261**	3 012	**-1 091**
17. Bank loans and advances	10 981		377	**-16 946**	-375	**85 123**			1		22 913	
18. Trade credit and short-term loans	29 260	**48 318**	345	**-202**	50 157	**4 258**			5 851	**299**	-4 731	**826**
19. Short-term government bonds				**70**		**7 650**		**-5 003**		**-13 964**		**-9 072**
20. Long-term government bonds	246	**2 051**				**1 320**		**12 794**		**36 042**		**11 434**
21. Non-marketable government bonds[6]		**-994**		**-16 031**								
22. Securities of local governments						**230**				**-491**		**94**
23. Securities of public enterprises	-1 074	**-199**	4 034			**-3 366**		**5 275**		**196**	-219	**6 270**
24. Other loan stock and preference shares	-791	**-624**			2 410	**24 577**		**3 300**	360	**8 140**	666	**4 891**
25. Ordinary shares	10 838	**-14 558**			3 948	**-341**		**8 275**	301	**92 506**		**48 141**
26. Foreign branch/head office balances												
27. Long-term loans	-637	**15 964**	7 394	**1**	-117				-53	**-1 403**	1 694	**3 345**
28. Mortgage loans	-4 840					**20 377**			-39	**-52**	2 727	**875**
29. Interest in retirement and life funds[7]		**-1 191**				**209**			20 761			
30. Amounts receivable/payable	-70 126	**-69 409**	-1 369	**16 521**	36 368	**52 024**			-7 522	**-67 204**	56 468	**-20 746**
31. Other assets/liabilities	-12 890	**17 682**	481	**4 615**	18 988	**-254**		**17 143**	25 318	**-13 351**	12 402	**5 207**
32. Balancing item					330	**-84**			106	**-117**	134	**69**

S = Sources, i.e., net increase in liabilities at transaction value.
U = Uses, i.e., net increase in assets at transaction value.

KB230

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)

Flow of funds for the first quarter 2015[1]

R millions

General government				Corporate business enterprises								Sectors / Transaction items
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	
21 449		-10 793		-7 079		20 890		-30 840		70 306		1. Net saving[4]
13 781		5 121		17 491		79 436		15 422		135 923		2. Consumption of fixed capital[4]
	21 722	14 691		900		1 220	16	5 013	28	21 868	21 868	3. Capital transfers
	16 360		15 718		38 384		110 214		23 955		206 229	4. Gross capital formation[4]
-2 852		-6 699		-27 072		-8 684		-34 388		-		5. Net lending (+)/net borrowing (-) (S)
	-2 852		-6 699		-27 072		-8 684		-34 388		-	6. Net financial investment (+) or (-) (U)
-28 210		18 336		42 186		243 020		37 462		618 587		7. Net incurrence of financial liabilities (Total S 9 – 32)
	-31 062		11 637		15 114		234 336		3 074		618 587	8. Net acquisition of financial assets (Total U 9 – 32)
										-12 286	-12 286	9. Gold and other foreign reserves
	-31 870		5 207		130		43 809		5 603	24 892	24 892	10. Cash and demand monetary deposits[5]
	-11 308		9 051		1 670		-15 734		6 810	-10 523	-10 523	11. Short/Medium-term monetary deposits[5]
	707		759		-1 217		1 610		5 729	41 700	41 700	12. Long-term monetary deposits[5]
			2 155	-2 264	147		3 456		3 660	6 434	6 434	13. Deposits with other financial institutions
	6 879					56	-48 972		485	24 641	24 641	14. Deposits with other institutions
-17 931							-1 734			-19 038	-19 038	15. Treasury bills
	50			-1 345	45	-131	961	-36		7 246	7 246	16. Other bills
-17 157		-1 308		-2 601		45 461		9 885		68 177	68 177	17. Bank loans and advances
197	1 046	1 016	1 291	21 082	9 240	19 513	45 583	3 320	15 351	126 010	126 010	18. Trade credit and short-term loans
-20 032					287					-20 032	-20 032	19. Short-term government bonds
64 038					650				-7	64 284	64 284	20. Long-term government bonds
-17 093									-68	-17 093	-17 093	21. Non-marketable government bonds[6]
		-167								-167	-167	22. Securities of local governments
	697			6 056					-76	8 797	8 797	23. Securities of public enterprises
	404	-62	9	16 739	1 184	11 712	-10 847			31 034	31 034	24. Other loan stock and preference shares
	394			8 515	-4 295	56 960	-49 560			80 562	80 562	25. Ordinary shares
												26. Foreign branch/head office balances
-570	8 086	338	3	6 979	460	2 639	-8 588	211	10	17 878	17 878	27. Long-term loans
		-4	-6	222		12 844		10 284		21 194	21 194	28. Mortgage loans
	-24				-1 834		8 285		15 316	20 761	20 761	29. Interest in retirement and life funds[7]
5 982	-6 123	18 423	126	-34 473	9 145	44 626	197 607	13 825	-49 739	62 202	62 202	30. Amounts receivable/payable
-25 483		75	-6 719	23 207	-373	49 836	67 957	-27		91 907	91 907	31. Other assets/liabilities
-161		25	-239	69	-125	-496	503			7	7	32. Balancing item

S = Sources, i.e., net increase in liabilities at transaction value.
U = Uses, i.e., net increase in assets at transaction value.

KB231

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3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account

Flow of funds for the second quarter 2015[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	23 799		-932		4 203				9 743		7 556	
2. Consumption of fixed capital[4]			17		3 558				525		818	
3. Capital transfers	41	103										
4. Gross capital formation[4]				37		2 891				385		33
5. Net lending (+)/net borrowing (-) (S)	23 737		-952		4 870				9 883		8 341	
6. Net financial investment (+) or (-) (U)		23 737		-952		4 870				9 883		8 341
7. Net incurrence of financial liabilities (Total S 9 – 32)	-37 309		8 395		16 565		30 520		19 368		48 964	
8. Net acquisition of financial assets (Total U 9 – 32)		-13 572		7 443		21 435		30 520		29 251		57 305
9. Gold and other foreign reserves	-1 388			-1 388								
10. Cash and demand monetary deposits[5]		5 426	5 446	-887	619	1 206		472		-6 163		253
11. Short/Medium-term monetary deposits[5]		-11 597	-168	-1 775	47 931			564		-1 938		21 241
12. Long-term monetary deposits[5]		-1 031	23	-1 260	45 148			3 057		5 437		38 093
13. Deposits with other financial institutions	291	25				-179		4 229		1 195	3 152	291
14. Deposits with other institutions	-7 834					4 021	30 520	-1 400	-1 400	29 182		10 859
15. Treasury bills	2 438			100		8 451				-1 388		-1 174
16. Other bills	4 511			9 789	191	-1 391		4 474		72	4 900	93
17. Bank loans and advances	31 594		-21	3 688	-1 506	20 714					1 934	
18. Trade credit and short-term loans	-10 938	-2 932	583	410	-33 124	-23 848			-824	99	1 891	3 926
19. Short-term government bonds				-221		12 272		-240		-8 867		-4 050
20. Long-term government bonds	68	4 360				7 345		16 479		33 412		-16 405
21. Non-marketable government bonds[6]		-977		5 300								
22. Securities of local governments						-115				1 103		-513
23. Securities of public enterprises	2 026	591	-1 595			-2 028		1 669		5 332	2 750	2 979
24. Other loan stock and preference shares	5 576	1 483			2 056	8 006		174	1 020	984	-483	-7 747
25. Ordinary shares	8 622	50 270			-522	7 126		4 229	314	-56 247		3 747
26. Foreign branch/head office balances												
27. Long-term loans	4 514	13 809	5 872		520				-104	-440	3 551	3 454
28. Mortgage loans	-454					21 526			25	-191	245	908
29. Interest in retirement and life funds[7]		2 280				1 360			18 424			
30. Amounts receivable/payable	-68 834	-75 474	-180	11	-51 586	-42 023			-713	29 579	21 764	1 930
31. Other assets/liabilities	-7 501	195	-1 565	-6 324	6 628	-1 006		-3 187	2 469	-1 683	8 945	-435
32. Balancing item					210	-2			157	-227	315	-145

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KB230

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6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)
Flow of funds for the second quarter 2015[1]

R millions

General government				Corporate business enterprises								
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		Sectors / Transaction items
S	U	S	U	S	U	S	U	S	U	S	U	
-7 425		-11 939		-6 275		27 428		26 466		72 624		1. Net saving[4]
13 987		5 223		18 221		80 068		15 687		138 104		2. Consumption of fixed capital[4]
	5 140	1 528				300	**15**	3 415	**26**	5 284	**5 284**	3. Capital transfers
	17 842		**17 050**		**40 423**		**109 370**		**22 697**		**210 728**	4. Gross capital formation[4]
-16 420		-22 238		-28 477		-1 589		22 845		-		5. Net lending (+)/net borrowing (-) (S)
	-16 420		**-22 238**		**-28 477**		**-1 589**		**22 845**		**-**	6. Net financial investment (+) or (-) (U)
46 640		41 586		9 858		87 925		13 375		285 887		7. Net incurrence of financial liabilities (Total S 9 – 32)
	30 220		**19 348**		**-18 619**		**86 336**		**36 220**		**285 887**	8. Net acquisition of financial assets (Total U 9 – 32)
										-1 388	**-1 388**	9. Gold and other foreign reserves
	-6 017		**-4 217**		**2 017**		**6 426**		**7 549**	6 065	**6 065**	10. Cash and demand monetary deposits[5]
	30 739		**-12 129**		**-7 578**		**10 599**		**19 637**	47 763	**47 763**	11. Short/Medium-term monetary deposits[5]
	2 535		**331**		**1 359**		**-7 209**		**3 859**	45 171	**45 171**	12. Long-term monetary deposits[5]
			5	-357	**1 773**		**-9 960**		**5 707**	3 086	**3 086**	13. Deposits with other financial institutions
	9 509					8 412	**-22 527**		**54**	29 698	**29 698**	14. Deposits with other institutions
-3 591							**-7 142**			-1 153	**-1 153**	15. Treasury bills
	2			1 411	**86**	5 884	**3 772**			16 897	**16 897**	16. Other bills
5 638		-660		2 018		-15 569		974		24 402	**24 402**	17. Bank loans and advances
20	**621**	9 552	**-1 644**	-16 242	**-8 410**	-20 668	**-37 038**	-1 426	**-2 360**	-71 176	**-71 176**	18. Trade credit and short-term loans
-1 106										-1 106	**-1 106**	19. Short-term government bonds
44 893					**-202**				**-28**	44 961	**44 961**	20. Long-term government bonds
4 288			**72**						**-107**	4 288	**4 288**	21. Non-marketable government bonds[6]
		697					**222**			697	**697**	22. Securities of local governments
	-36			5 323			**-1**		**-2**	8 504	**8 504**	23. Securities of public enterprises
	194	-6 578	**6**	-212	**-267**	491	**-954**		**-9**	1 870	**1 870**	24. Other loan stock and preference shares
				4	**3 328**	11 839	**7 804**			20 257	**20 257**	25. Ordinary shares
												26. Foreign branch/head office balances
-1 382	**10 222**	10 360	**-29**	9 905	**-896**	9 067	**15 768**	372	**787**	42 675	**42 675**	27. Long-term loans
		-19	**-7**	996		13 411		8 032		22 236	**22 236**	28. Mortgage loans
	-500				**1 834**		**17 005**		**-3 555**	18 424	**18 424**	29. Interest in retirement and life funds[7]
-2 120	**-17 049**	576		-3 590	**-15 133**	47 215	**60 867**	4 864	**4 688**	-52 604	**-52 604**	30. Amounts receivable/payable
		27 494	**36 720**	10 452	**3 353**	27 860	**47 708**	559		75 341	**75 341**	31. Other assets/liabilities
		164	**240**	150	**117**	-17	**996**			979	**979**	32. Balancing item

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KB231

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6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account

Flow of funds for the third quarter 2015[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	**U**	S	**U**	S	**U**	S	**U**	S	**U**	S	**U**
1. Net saving[4]	57 602		950		11 928				11 572		7 033	
2. Consumption of fixed capital[4]			18		3 723				498		840	
3. Capital transfers	43	**106**										
4. Gross capital formation[4]				**36**		**2 851**				**565**		**66**
5. Net lending (+)/net borrowing (-) (S)	57 539		932		12 800				11 505		7 807	
6. Net financial investment (+) or (-) (U)		**57 539**		**932**		**12 800**				**11 505**		**7 807**
7. Net incurrence of financial liabilities (Total S 9 – 32)	-78 758		40 627		11 663		33 053		39 589		31 767	
8. Net acquisition of financial assets (Total U 9 – 32)		**-21 219**		**41 559**		**24 463**		**33 053**		**51 094**		**39 574**
9. Gold and other foreign reserves	-510			**-510**								
10. Cash and demand monetary deposits[5]		**-1 259**	25 291	**-4 922**	822	**9 099**		**6 347**		**1 649**		**1 001**
11. Short/Medium-term monetary deposits[5]		**19 264**	-128	**-13 299**	62 961					**5 455**		**14 713**
12. Long-term monetary deposits[5]		**2 801**	25		-6 018					**-16 125**		**5 620**
13. Deposits with other financial institutions	416	**15**				**1 017**		**-1 325**		**1 388**	32 828	**416**
14. Deposits with other institutions	-33 840					**-43 645**	33 053	**2 135**	2 135	**28 896**		**8 298**
15. Treasury bills	4 543			**-101**		**5 950**				**576**		**-284**
16. Other bills	4 450		-90	**3 793**	-283	**528**		**4 808**		**640**	-6 279	**21 694**
17. Bank loans and advances	3 955		-3 016	**34 641**	9 967	**34 847**			-250		15 682	
18. Trade credit and short-term loans	-18 567	**1 551**	4 120	**-167**	15 646	**13 263**			12 616	**466**	-1 383	**1 491**
19. Short-term government bonds				**-50**		**-126**		**-158**		**-27 209**		**-1 252**
20. Long-term government bonds	2 431	**-237**				**3 999**		**1 796**		**42 692**		**5 079**
21. Non-marketable government bonds[6]				**24 140**								
22. Securities of local governments						**340**				**-306**		**-64**
23. Securities of public enterprises	-1 890	**-865**	-95			**-1 228**		**3 955**		**748**	-1 060	**-1 660**
24. Other loan stock and preference shares	12 884	**-706**			114	**13 056**		**-626**	1 632	**53 633**	311	**1 542**
25. Ordinary shares	26 550	**12 597**			6 103	**-2 993**		**15 368**	53	**-34 670**		**-8 122**
26. Foreign branch/head office balances												
27. Long-term loans	3 564	**21 513**	12 239	**1**	775				-189	**-46 298**	3 110	**5 536**
28. Mortgage loans	-95					**25 143**			35	**-56**	123	**989**
29. Interest in retirement and life funds[7]		**1 866**				**-650**			22 093			
30. Amounts receivable/payable	-68 918	**-71 216**	808	**-2**	-72 648	**-48 563**			-552	**41 987**	-9 255	**-16 521**
31. Other assets/liabilities	-13 731	**-6 543**	1 473	**-1 965**	-5 582	**14 319**		**753**	2 012	**-2 279**	-2 233	**824**
32. Balancing item					-194	**107**			4	**-93**	-77	**274**

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KB230

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6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)

Flow of funds for the third quarter 2015[1]

R millions

General government				Corporate business enterprises								Sectors / Transaction items
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		
S	U	S	U	S	U	S	U	S	U	S	U	
-30 959		-9 107		-4 725		20 275		7 857		72 426		1. Net saving[4]
14 236		5 348		19 018		81 617		15 913		141 211		2. Consumption of fixed capital[4]
	25 316	9 277		11 001		452	15	4 692	28	25 465	25 465	3. Capital transfers
	19 446		18 549		42 800		104 514		24 810		213 637	4. Gross capital formation[4]
-61 485		-13 031		-17 506		-2 185		3 624		-		5. Net lending (+)/net borrowing (-) (S)
	-61 485		-13 031		-17 506		-2 185		3 624		-	6. Net financial investment (+) or (-) (U)
50 031		1 544		25 084		118 762		15 598		288 960		7. Net incurrence of financial liabilities (Total S 9 – 32)
	-11 454		-11 487		7 578		116 577		19 222		288 960	8. Net acquisition of financial assets (Total U 9 – 32)
										-510	-510	9. Gold and other foreign reserves
	-18 572		3 358		-2 491		25 737		6 166	26 113	26 113	10. Cash and demand monetary deposits[5]
	20 377		1 639		4 537		-7 079		17 226	62 833	62 833	11. Short/Medium-term monetary deposits[5]
	-362		310		1 634		-1 976		2 105	-5 993	-5 993	12. Long-term monetary deposits[5]
			73		1 728		20 534		9 398	33 244	33 244	13. Deposits with other financial institutions
	6 234					-72	-738		96	1 276	1 276	14. Deposits with other institutions
5 910							4 312			10 453	10 453	15. Treasury bills
				459	-35	28 309	-4 862			26 566	26 566	16. Other bills
24 559		1 286		-939		11 345		6 899		69 488	69 488	17. Bank loans and advances
5	3 385	-6 694	4 710	1 874	-547	-10 405	-20 407	1 980	-4 553	-808	-808	18. Trade credit and short-term loans
-28 795										-28 795	-28 795	19. Short-term government bonds
50 246					-616				-36	52 677	52 677	20. Long-term government bonds
23 978			25						-187	23 978	23 978	21. Non-marketable government bonds[6]
							30					22. Securities of local governments
	-8			2 479			-1 517		9	-566	-566	23. Securities of public enterprises
	151		57	6 929	232	48 735	3 262		4	70 605	70 605	24. Other loan stock and preference shares
				6	-35	-6 551	44 016			26 161	26 161	25. Ordinary shares
												26. Foreign branch/head office balances
-527	7 984	-2 165	-1	5 907	-487	-46 635	-9 941	1 293	-935	-22 628	-22 628	27. Long-term loans
				166		14 055		11 792		26 076	26 076	28. Mortgage loans
	-800				23		-1 532		23 186	22 093	22 093	29. Interest in retirement and life funds[7]
-25 345	-29 843	-301		3 391	1 333	74 614	51 422	-6 454	-33 257	-104 660	-104 660	30. Amounts receivable/payable
		9 314	-21 494	4 609	2 227	5 168	15 276	88		1 118	1 118	31. Other assets/liabilities
		104	-164	203	75	199	40			239	239	32. Balancing item

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5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account

Flow of funds for the fourth quarter 2015[1]

R millions

Sectors / Transaction items	Foreign sector		Financial intermediaries: Monetary authority		Other monetary institutions[2]		Public Investment Corporation[3]		Insurers and retirement funds		Other financial institutions	
	S	U	S	U	S	U	S	U	S	U	S	U
1. Net saving[4]	45 209		187		9 570				7 022		8 559	
2. Consumption of fixed capital[4]			19		3 940				782		864	
3. Capital transfers	42	102										
4. Gross capital formation[4]				40		2 419				745		56
5. Net lending (+)/net borrowing (-) (S)	45 149		166		11 091				7 059		9 367	
6. Net financial investment (+) or (-) (U)		45 149		166		11 091				7 059		9 367
7. Net incurrence of financial liabilities (Total S 9 – 32)	-98 424		27 849		162 682		16 283		7 824		89 531	
8. Net acquisition of financial assets (Total U 9 – 32)		-53 275		28 015		173 773		16 283		14 883		98 898
9. Gold and other foreign reserves	5 113			5 113								
10. Cash and demand monetary deposits[5]		-3 278	11 137		40 933	4 631		2 922		-7 868		917
11. Short/Medium-term monetary deposits[5]		8 876	9		30 410			-609		-969		-13 974
12. Long-term monetary deposits[5]		2 901	27		-9 721			-2 715		9 212		-14 915
13. Deposits with other financial institutions	892	78				-669		4 987		1 268	22 269	892
14. Deposits with other institutions	1 916					44 093	16 283	-4 945	-4 945	14 090		37 295
15. Treasury bills	-3 825			101		-2 139				-437		-1 019
16. Other bills	1 667			6 760	-506	-7 735		4 879		-362	-2 560	-2 620
17. Bank loans and advances	-39 825		-697	-1 603	3 009	-4 826			-34		-4 395	
18. Trade credit and short-term loans	-27 064	-10 141	3 916	-222	19 067	8 534			-5 188	-15 624	13 527	10 145
19. Short-term government bonds				-483		-5 024		617		-17 664		2 479
20. Long-term government bonds	1 521	-2 887				22 120		4 872		28 756		13 262
21. Non-marketable government bonds[6]		-379		-5 652								
22. Securities of local governments						-513		-152		-557		-34
23. Securities of public enterprises	1 054	1 317	223			1 670		3 886		-1 542	-5 367	-2 659
24. Other loan stock and preference shares	2 055	-3 513			-1 696	17 279		1 308	21	9 079	-611	-316
25. Ordinary shares	46 423	40 540			21	1 838		16 674	249	65 046		27 474
26. Foreign branch/head office balances												
27. Long-term loans	6 392	2 312	12 450	4	2 680				18	2 998	8 338	2 994
28. Mortgage loans	496					23 198			2	392	-1 198	419
29. Interest in retirement and life funds[7]		5 914				271			26 997			
30. Amounts receivable/payable	-84 531	-72 060	-526	5 817	60 403	69 495			-17 502	-54 741	47 402	32 922
31. Other assets/liabilities	-10 708	-22 955	1 310	18 180	18 061	1 412		-15 441	7 904	-16 146	11 844	5 477
32. Balancing item					21	138			302	-48	282	159

S = Sources, i.e., net increase in liabilities at transaction value.
U = Uses, i.e., net increase in assets at transaction value.

KB230

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

National financial account (continued)
Flow of funds for the fourth quarter 2015[1]

R millions

General government				Corporate business enterprises								
Central and provincial governments		Local governments		Public sector		Private sector		Households, etc.		Total		Sectors / Transaction items
S	U	S	U	S	U	S	U	S	U	S	U	
13 523		-19 133		-10 975		32 987		-30 657		56 292		1. Net saving[4]
14 489		5 511		19 725		83 758		16 071		145 159		2. Consumption of fixed capital[4]
	20 977	9 203		6 057		591	15	5 228	27	21 121	21 121	3. Capital transfers
	19 492		18 006		42 320		93 257		25 116		201 451	4. Gross capital formation[4]
-12 457		-22 425		-27 513		24 064		-34 501		-		5. Net lending (+)/net borrowing (-) (S)
	-12 457		-22 425		-27 513		24 064		-34 501		-	6. Net financial investment (+) or (-) (U)
43 876		2 965		20 482		133 870		73 375		480 313		7. Net incurrence of financial liabilities (Total S 9 – 32)
	31 419		-19 460		-7 031		157 934		38 874		480 313	8. Net acquisition of financial assets (Total U 9 – 32)
										5 113	5 113	9. Gold and other foreign reserves
	-23 865		-1 630		-391		67 366		13 266	52 070	52 070	10. Cash and demand monetary deposits[5]
	41 041		2 646		-5 566		-18 640		17 614	30 419	30 419	11. Short/Medium-term monetary deposits[5]
	-1 845		-225		-2 138		-4 557		4 588	-9 694	-9 694	12. Long-term monetary deposits[5]
			-1		197		8 734		7 675	23 161	23 161	13. Deposits with other financial institutions
	3 772					-4 600	-85 893		242	8 654	8 654	14. Deposits with other institutions
2 299							1 968			-1 526	-1 526	15. Treasury bills
				-254		-2 026	-4 601			-3 679	-3 679	16. Other bills
-4 657		-2 031		368		31 302		10 531		-6 429	-6 429	17. Bank loans and advances
-357	6	757	-1 921	-862	-126	-56 566	-41 823	3 119	1 521	-49 651	-49 651	18. Trade credit and short-term loans
-20 077									-2	-20 077	-20 077	19. Short-term government bonds
64 229					-373					65 750	65 750	20. Long-term government bonds
-6 206									-175	-6 206	-6 206	21. Non-marketable government bonds[6]
		-1 158					98			-1 158	-1 158	22. Securities of local governments
	-708			6 065					11	1 975	1 975	23. Securities of public enterprises
			13	6 924	-612	-9 759	-26 304			-3 066	-3 066	24. Other loan stock and preference shares
				2	355	95 843	-9 389			142 538	142 538	25. Ordinary shares
												26. Foreign branch/head office balances
-1 503	10 797	3 443	-1	3 934	8 023	-12 131	-4 319	-777	36	22 844	22 844	27. Long-term loans
			-27	-181		15 569		9 294		23 982	23 982	28. Mortgage loans
	-35				70		5 426		15 351	26 997	26 997	29. Interest in retirement and life funds[7]
10 148	2 256	-472		-29 516	-10 748	89 769	174 815	51 328	-21 253	126 503	126 503	30. Amounts receivable/payable
		2 320	-18 236	33 751	4 208	-13 772	94 091	-120		50 590	50 590	31. Other assets/liabilities
		106	-78	251	70	241	962			1 203	1 203	32. Balancing item

S = Sources, i.e., net increase in liabilities at transaction value.
U = Uses, i.e., net increase in assets at transaction value.

KB231

1. A negative amount reflects a decrease in that item. In the case of liabilities (sources) it denotes a reduction in the available sources of funds and in the case of assets (uses) it indicates an additional source of funds.
2. Including mutual banks and the Postbank.
3. Before April 2005 the Public Investment Commissioners.
4. As taken from the national income (and production) accounts.
5. Namely deposits with the South African Reserve Bank (including coin liabilities), Corporation for Public Deposits, banks, the Land Bank, mutual banks and the Postbank.
6. Non-marketable bonds and other Treasury bills.
7. Members' interest in the reserves of retirement and all insurance funds.

Notes to tables

National income and production accounts of South Africa – Table S–108

An additional data series, *Gross domestic expenditure excluding the residual*, has been added to link to the numbers published by Statistics South Africa (Stats SA) following the transfer of the compilation of the gross domestic product from the expenditure side from the Bank to Stats SA.

Expenditure on gross domestic product – Table S–111, S–112 and S–113

Following the transfer of the compilation of the gross domestic product from the expenditure side from the Bank to Stats SA, an additional data series, *Gross domestic expenditure excluding the residual*, has been added to the table.

To distinguish between what Stats SA publishes as *Expenditure on gross domestic product* and what the Bank historically published under the same heading, GDP at market prices has been added to the heading in the table.

Final consumption expenditure by households – Table S–114 and S–115

Security services will no longer be available separately due to insufficient data.

Final consumption expenditure by households according to COICOP classification – Table S–117

The layout of the table will be according to the Classification of Individual Consumption According to Purpose (COICOP) as published by Stats SA. Food, beverages and tobacco will be split between *food* and *non-alcoholic beverages* and *alcoholic beverages, tobacco* and *narcotics. Communication* will be published as an individual series.

Gross fixed capital formation – Table S–120 and S–121

Data by type of economic activity are preliminary estimates. The numbers are subject to annual revisions and should be treated with circumspection.

Key information – Table S–152

To distinguish between what Stats SA publishes as *Gross domestic expenditure* and what the Bank historically published under the same heading, *including residual* has been added to the heading in the table.